

Annual Report

to

USEPA Region IX

Safe Drinking Water State
Revolving Fund

State Fiscal Year
2002-2003 (July-June)

State of California
Department of Health Services



**SAFE
DRINKING
WATER
STATE
REVOLVING
LOAN FUND**
January 2004

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I. EXECUTIVE SUMMARY

This is the fifth report for California's Safe Drinking Water State Revolving Fund (SDWSRF) Program. This report is provided annually to the United States Environmental Protection Agency (USEPA) pursuant to the requirement of the Assistance Agreement. The California state agency responsible for administering this award is the California Department of Health Services (DHS). The SDWSRF Program resides in the Division of Drinking Water & Environmental Management. The Annual Report to USEPA follows the State of California's fiscal year reporting cycle of July 1, 2002 through June 30, 2003.

No additional Assistance Agreements were executed during the reporting period with the USEPA. To date, California has received a total of five Assistance Agreements. Funding sources for the SDWSRF Program include the five Assistance Awards received (1997-2001) from USEPA, the state match, interest and principal repayments from loans, and from interest earned on the Surplus Money Investment Fund (SMIF). Principal repayments amounted to \$2,861,742, loan interest payments amounted to \$1,896,998, and SMIF interest amounted to \$156,337, bringing the total amount of revenue received for the reporting period to \$4,915,078 (Table 1). Cumulative repayments received now amount to \$8,125,097 (Appendix A), which will be used for additional project commitments.

Actual expenditures for State Fiscal Year (SFY) 2002/03 total \$23,751,197 (Table 2) for the reporting period. This is comprised of \$16,272,567 in loan disbursements and \$7,478,630 in set aside expenditures. Accounting adjustments for prior reporting periods are restated for those years and also shown in Table 2.

The SDWSRF program is authorized for a total of 50 positions, which equate to 42.5 full-time employees (FTEs). The Administration set aside has 19.5 FTEs, Capacity Development has 2.5 FTEs, Small Water Systems has 10.5 FTEs and Source Water Assessment has 10 FTEs. As of June 30, 2003, all FTE positions were filled.

☐ Loan Program

Since no new federal awards were received for the reporting period, the total amount available for loan commitments remains at \$442,035,670 (Table 1). Loan commitments (obligations) made against this amount as of June 30, 2003 total \$415,799,107 (\$95,554,136 from 1997 money, \$101,506,905 from 1998 money, \$74,836,314 from 1999 money, \$96,669,574 from 2000 money, and \$47,232,178 from 2001 money. Included in these amounts are adjustments of \$23,520,484 (See Table 1) to the 1997-2000 FFY grants. See Table 5 for a listing of these loan commitments. Due to loan and interest repayments, total sources of funding for projects now amounts to \$490,732,17 (Table 1).

During the reporting period there were a total of eleven (11) funded projects (closed loans and forgiveness of principal) valued at \$53,047,286. One (1) project was dropped from previous reporting periods (Bella Vista) due to a withdrawal, resulting in a net gain of ten (10) for the loan portfolio. There were thirty-six (36) funded contracts from the previous reporting periods, bringing the cumulative funded contracts to forty-six (46). Cumulative project funding (Table 3)

amounts to \$190,189,227 (\$183,791,578 in loans + \$6,397,649 in forgiveness of principal). The \$190,189,227 is comprised of \$137,141,941 from prior reporting periods and \$53,047,286 from this reporting period. Cumulative project loan and principal forgiveness disbursements amount to \$126,880,046 (\$110,607,479 from prior years and \$16,272,567 from this fiscal year). Please see Table 2.

Long-term construction loans comprise the majority of the project financing to be made available and may include planning, design, acquisition, and construction costs. In addition, the following terms and conditions apply:

- The maximum length of a loan is 20 years or the useful life of the project, whichever is shorter, unless an applicant is found to be a disadvantaged community. If the latter is applicable, a term of 30 years may be allowed.
- The applicable interest rate for obligations made during the calendar year will be 50% of the average interest rate paid by the state on the last bond sale of general obligation bonds issued in the prior calendar year. Disadvantaged communities have a zero interest rate.
- The maximum amount of loan financing to be awarded to a single project from any one capitalization grant is \$20,000,000. DHS may increase this amount during September of each year (the last month to make loan commitments), if it determines that excess funds are available due to bypasses or other issues.
- All interest rates are fixed term for the life of the loan. No variable rates and no balloon payments are allowed.
- In addition to the maximum loan amount per project described above, no public water system (PWS) with multiple projects shall receive a total amount of loans in excess of \$30,000,000 from any one capitalization grant.

In a few cases, some water systems may not be able to fund the preliminary planning needed to proceed with a full design and construction loan application. In such cases, an applicant may apply for a short-term planning loan. Unlike staged projects, funds from future years will not be reserved for projects receiving a short-term planning loan. The maximum loan amount for any single project shall not exceed \$100,000 with a maximum loan period of five years. The loan repayments may be combined with a long-term construction loan should one be subsequently awarded.

☐ Set Asides

The prior Assistance Agreements provided for several set asides, which are funded out of the federal capitalization grant at 100% federal participation. The prior allocations were used in the following manner:

Administration - To administer the SDWSRF Program, California has earmarked the maximum 4% set aside allowed from the prior Assistance Awards, which total \$12,717,900. A total of 20

administrative positions are authorized and equate to 19.5 FTE positions. Actual expenses for the reporting period totaled \$2,505,520 (See Table 2). Cumulative expenditures-to-date total \$10,959,078. Encumbrances at the end of the reporting period totaled \$310,010. Encumbrances represent funds reserved for purchases, contracts, or other activities prior to 6/30/03 but not yet billed and charged to the SDWSRF program.

Funds from this set aside are used to administer the overall SDWSRF administrative activities of the program, which include staffing for providing loans to water systems, contracts with other organizations to assist DHS in providing those loans, and office equipment and supplies to support staff.

Capacity Development – California has earmarked \$2,635,858 from prior Assistance Awards for capacity development. Actual expenses for the reporting period totaled \$1,396,116.91. Cumulative expenditures-to-date total \$2,205,550. Encumbrances at the end of the reporting period totaled \$509,541. Authorized positions for this set aside are 2.5 and equate to 2.5 FTEs.

Funds from this set aside are used to (1) continue the implementation of the approved capacity development strategy and the requirements contained in the SDWSRF Policy and Procedures Manual, (2) continue the implementation of the new Water Supply Permit Policy and Procedures Manual, (3) track program progress and make program revisions as necessary, (4) continue to evaluate and further develop the capacity assessment system that is consistent with the SDWSRF and the Water Supply Permit Policy & Procedures Manual, and (5) implement the Staff Guidance Manual for technical assistance to small water systems.

DHS has developed a strategy to assist PWSs in acquiring and maintaining technical, managerial, and financial (TMF) capacity. This strategy was finalized in August of 2000 and accepted by EPA. Throughout this implementation process DHS will continue to solicit input from the State's technical advisory committee and other interested stakeholders and incorporate this into addressing mid-term program changes and updates.

Last reporting period, DHS developed performance criteria to determine whether a system has adequate TMF capacity. This reporting period, DHS revised and intends to further revise the criteria based on input received from field use. DHS also developed policies and procedures for implementing capacity requirements. DHS continues to modify the TMF capacity self-assessment forms and staff evaluation forms that are used to assess and document a water system's TMF capacity. All TMF related forms have been placed on the Department's Internet Site for easier accessibility by staff and water systems.

DHS is continuing the implementation of the new Permit Policy and Procedures Manual. All sections of the permit manual that pertain to the issuance of permits for new PWSs were revised and implemented by October 1, 1999. The permit is the critical control point in prevention of the creation of any new non-viable PWSs in California.

DHS is in the process of modifying its database system to more effectively track program data. The revisions will eventually enable DHS to (1) track information on the TMF capacity status of

PWSs, (2) identify and track areas where water systems need to develop capacity, and (3) identify and track areas where water systems need technical assistance.

Small Water System Technical Assistance – The majority of California’s 7,847 PWSs fall into the small water system (SWS) category (7,170 SWSs) and DHS is utilizing the entire portion of the Capitalization Grant allowed for this set aside. The funds will be used to provide in-house technical staff and to contract with outside contractors to provide technical assistance to small water systems. In fact, third party circuit riders provided technical assistance to 113 water systems for this reporting period. The primary goals of the small system technical assistance program are: (1) reducing the instances of noncompliance with drinking water standards and requirements; (2) establishing and assuring safe and dependable water supplies; (3) improving the operational capability of the systems; and (4) establishing or improving the financial, technical, and managerial capability of the systems.

California has earmarked \$4,913,543 from prior Assistance Awards for small water system technical assistance. Actual expenses for the reporting period totaled \$1,226,299. Cumulative expenditures-to-date total \$4,794,038. Encumbrances at the end of the reporting period totaled \$58,703. Authorized positions for this set aside are 10.5 and equate to 10.5 FTEs.

Source Water Assessment Program (SWAP) – The funding for this program was used to develop and implement a source water assessment program to delineate the boundaries of protection areas for drinking water sources, and identify possible contaminating activities within the delineated areas in order to assess the vulnerability of the water source to contamination. In California, the SWAP is incorporated into the Drinking Water Source Assessment and Protection (DWSAP) Program. USEPA endorsed the Department’s DWSAP Program on April 26, 1999 and final approval was given on November 5, 1999.

The Department is pleased to report that the source water assessments are essentially complete. In state fiscal year 2002/2003 the Department recorded 8,627 completed source water assessments (page 58). This brings the total completed assessments to 14,156 (93% complete).

The Department contracted with 33 county environmental health agencies [local primacy agencies (LPAs)] for completion of source water assessments for all active public drinking water sources under the regulatory jurisdiction of the LPA. The contracts terminated on December 31, 2002 and totaled \$1,953,900. In 2002/03, payments to LPAs for DWSAP were \$418,998.

The Department contracted with UC Davis-Information Center for the Environment (UCD-ICE) to develop geographic information system applications and decision support system tools in order to assist in identifying different source water threats. The first agreement with UCD-ICE was executed in August 1999 and was amended in April 2001. This agreement terminated on June 30, 2002, and total contract expenses paid were \$651,632.30. A new agreement with UCD-ICE was executed for the period July 1, 2002 to June 30, 2005. The expenses for the first 11 months of this agreement (through May 31, 2003) were charged to the SWAP set aside. Expenses paid in SFY 2002/03 were \$153,287.32.

The one-time SWAP set aside element was budgeted at 10% of the 1997 federal allocation, to be expended by May 31, 2003 and totals \$7,568,260 (10% of \$75,682,600). Expenditures for last fiscal year amounted to \$2,350,694 (Table 2). As of June 30, 2003, cumulative expenditures against this set aside amounted to \$6,359,368.14. Outstanding encumbrances at the end of the reporting period were \$604,315. This is for services rendered prior to 5/31/03 but not yet billed and disbursed by DHS. We anticipate amending the 1997 Assistance Award with EPA and returning the remaining balance to the loan fund. Authorized positions for this set aside are 17, which equate to 10 FTEs.

As part of the overall SWAP strategy, low interest source water protection (SWP) loans are now available for PWSs for source water protection. The Department intends to use \$8,416,655 in funding that was set aside from the FFY 2000 and 2001 Assistance Awards towards funding projects on the SWP priority list. Funding in the amount of \$4,040,835 from the FFY 1999 Assistance Award was unable to be committed by the deadline because regulations had not yet been adopted and will be returned to the SDWSRF infrastructure loan fund. Funding for the Source Water Protection loan program will provide loans to PWSs for implementation of source water protection activities, including the purchase of land or conservation easements. The SWP loans will be treated as a sub-account within the SDWSRF loan fund. The Department completed the adoption of regulations for the Source Water Protection loan program in September of 2002. No loans could be made until adoption of the regulations. The first Source Water Protection loan commitment was made to Contra Costa Water District in January 2003. The loan was for \$2,000,000 to fund a project at the Contra Loma Reservoir in order to isolate the body contact recreational activities from the water storage reservoir.

II. INTRODUCTION

DHS is pleased to submit its fifth Annual Report on the SDWSRF Program. The Report addresses operation of the SDWSRF program during the time period of July 1, 2002 through June 30, 2003. During that period California received no new capitalization grant awards. Prior allotments from the previous awards remain at \$401,940,600. Cumulative state matches for those awards total \$80,388,120. Cumulative interest earned (both investment and loan repayment) is \$3,414,327. Cumulative principal repayments amount to \$4,989,080. These combined sources available for SDWSRF program use total \$490,732,127.

DHS provides this comprehensive report to the USEPA Regional Office and to the public to detail the activities undertaken to reach the goals and objectives set forth in the Intended Use Plan (IUP) developed for the previous Assistance Awards. The report documents the status of the program by describing the progress made toward long and short-term program goals, the sources (e.g., federal grants and state match) and uses of all funds, financial status of the SDWSRF, and compliance with federal Drinking Water State Revolving Fund requirements.

DHS presents the Annual Report in six major sections. Section I is an Executive Summary. Section II of the report provides an Introduction. Section III provides a summary of progress made toward reaching long and short-term goals. Section IV reports details on loan and set aside activities. Section V provides an overview of financial conditions of the program. Section VI reports on DHS' compliance with provisions of the federal capitalization grant agreement and the operating agreement.

STATE OF CALIFORNIA SDWSRF – OVERVIEW

State Fiscal Years 1998/99 - 2002/03

Total Available Investment (loan amount):		\$442,035,670
Number of Projects (Closed Loans & principal forgiveness):	42	
Number of Projects (Principal Forgiveness only)	<u>4</u>	
TOTAL NUMBER OF PROJECTS:	→	46
Project Funding (Closed Loans):	\$183,791,578	
(Forgiveness of Principal Loans):	<u>6,397,649</u>	
TOTAL PROJECT FUNDING:	→	\$190,189,227
Total Population Served:		8,603,476
Average Interest Rate:		1.71%
Average Repayment Period:		19.05 years
Small Systems Funded (<10,000 pop.):	30 for	\$35,244,013
Disadvantaged Community Funding:	17 for	\$49,597,383
Systems Receiving 0% Interest Loan:	11 for	\$43,199,734
Cumulative Set Aside Assistance (Not Including SWP Loans):		\$27,835,561

III. GOALS AND ACCOMPLISHMENTS

DHS developed the goals listed below for the SFY 2002/03 IUPs. The long-term goals provide a framework that guides DHS' management decisions for the SDWSRF program. The short-term goals support the implementation of the program's long-term goals.

A. Progress toward Long-Term Goals

1. ***Ensure that public water systems provide an adequate, reliable supply of safe clean drinking water.***

Progress Toward Goal 1: The SDWSRF program continues to lay the foundation for future improvements in California's safe drinking water supply. The program has a viable loan program that provides ongoing subsidized funding for infrastructure improvements. During SFY 2002/03, \$113,278,623 in new loan commitments (including adjustments) were made representing 24 projects. \$415,799,107 in cumulative loan commitments (Table 1) have now been made to water systems against the 1997-2001 year federal grants and state match monies combined. This represents 101 water systems (a total of 114 projects) that are committed to improving the quality of water to their customers. Set asides are used to fund Administration, Source Water Assessment and Protection, Capacity Development and Small Water System Technical Assistance. The SDWSRF loan program advances this basic goal of the Department of improving the state's safe drinking water supply by providing an ongoing source of funds for current and future infrastructure improvements.

2. ***Continue funding projects on the comprehensive multi-year Project Priority List (PPL).***

Progress Toward Goal 2: The Department is continuing to use the priority list process to direct SDWSRF loan funds to those projects that meet high priority needs. The PPL developed by the Department for the Capitalization Grant is revised at least biennially, to include new projects. A PPL was updated in June of 2003 that was comprised of 3675 projects submitted by approximately 1,600 PWSs, valued at almost \$8 billion. A separate PPL representing 65 source water protection projects was updated on June 27, 2003. These projects are valued at \$30.6 million. Projects by-passed are not removed from the list but will be eligible for funding in subsequent years at the same time as new projects in the same category. The SDWSRF Program commenced making loan commitments in June 1999.

Both the federal SDWSRF program guidelines and State legislation (H&S Code Section 116760.70) require that a PPL be developed and that projects be funded in accordance with the priority list rankings. In establishing the PPL, the Department is required to rank projects in order of the degree of health risk associated with the problem that the proposed project is intended to solve. Thus the projects solving the most serious health risk and SDWA compliance problems will receive the highest ranking. When ranking projects, the Department is also required to consider the ability of the affected community to afford the cost of the proposed project.

The Department has had considerable experience in developing PPLs using the above criteria (with the exception of “affordability”) in implementing several previous drinking water bond measures. Based on this experience, the Department has determined that a category system where projects fall into designated categories is the most feasible and practical way to rank proposed projects and is less complicated and subjective than a point rating system that is used by some states. The categories used by the SDWSRF Program are consistent with USEPA’s criteria and are similar to those categories used during the previous state funding programs. These categories group water quality, quantity, and reliability problems that have a similar degree of health risk.

SDWSRF Infrastructure Projects

The categories that have been established by the Department for SDWSRF infrastructure projects are summarized below:

<u>Category</u>	<u>Description</u>
A)	Demonstrated illness attributable to the water system or a system under court ordered compliance.
B)	Microbial contamination of the water supply resulting in a repeated coliform bacteria maximum contaminant level (MCL) violation.
C)	Unfiltered surface water or wells that have fecal or E. coli contamination.
D)	Filtered surface water that violates the surface water filtration and disinfection regulation.
E)	Insufficient water source capacity resulting in water outages.
F)	Nitrate/nitrite contamination exceeding the MCL and Total Coliform Rule violations.
G)	Chemical contamination (other than nitrate/nitrite) exceeding a primary MCL.
H)	Uncovered distribution reservoirs and low-head lines.
I)	Systems meeting existing MCLs but not the proposed microbial MCLs or proposed microbial treatment standards or the California Cryptosporidium Action Plan.
J)	Significant sanitary defects involving sewage.
K)	Disinfection facilities that have defects.
L)	Systems meeting existing MCLs but not proposed non-microbial MCLs.
M)	Other waterworks standards defects.
N)	Iron and/or manganese violations.
O)	Other water system deficiencies.

In general, the Department considers Categories A through G to be high priority, Categories H through K to be medium priority and Categories L through O to be low priority. The categories assist the Department in planning and establishing funding goals and objectives.

Source Water Protection Loan Program

The following categories are used for ranking Source Water Protection projects related to potentially contaminating activities (PCA) for ground water sources (GW) or surface water sources (SW):

<u>Category</u>	<u>Description</u>
A)	Microbial contaminants that may affect GW Zone A) or SW Zone A or B.
B)	Nitrate contamination that may affect GW Zone A.
C)	Nitrate contamination that may affect GW Zone B5, B10 and/or a GW recharge area.
D)	DBPs (disinfection byproducts) and/or chemicals that may affect GW Zones A and/or B5; <u>or</u> located in SW Zones A and/or B.
E)	DBPs and/or chemicals that may affect GW Zone B10.
F)	DBPs and/or chemicals that may affect the watershed of a SW.
G)	DBPs and/or chemicals which may affect the recharge area of a GW.
H)	Microbial contaminants which may affect GW Zone B5 and/or B10, the recharge area of a GW, or the watershed of a SW.
I)	Microbial contaminants, nitrate, or DBPs and/or chemicals that may affect a GW buffer zone.

3. *Ensure the revolving nature of the SDWSRF loan fund.*

Progress Toward Goal 3: The SDWSRF loan fund provides a cost effective funding mechanism to assist public water systems in achieving and maintaining compliance with the Safe Drinking Water Act (SDWA). \$190,189,227 in loans (includes \$6,397,649 in forgiveness of principal) representing 46 funded contracts (45 projects and 41 water systems) were executed as of June 30, 2003. Loan repayments for principal and interest during this reporting period totaled \$4,758,741 with a cumulative-to-date total of \$8,125,097 (Appendix A). Loans are tracked with an automated information management system to ensure that loan repayments are tracked and accounted for in order to maintain self-sufficiency of the fund. The Department will ensure that the revolving fund remains financially viable over the long term so that repayments of existing loans will be sufficient to fund the issuance of new loans after the federal Capitalization Grants cease. The Department manages the sale of General Obligation (GO) bonds to provide the required state matching amount. Bond funding for the SDWSRF was provided by the passage of Proposition 13, The Safe Drinking Water, Clean Water, Watershed Protection, and Water Reliability Bond Act in the March 2000 election. That act authorized the sale of \$1.97 billion in GO bonds for water related projects, including \$70 million for the SDWSRF loan program. These bonds have funded the 1999-2001 grants and will fund most of the 2002 grant for next fiscal year. Proposition 50 (the Water Security, Clean Drinking Water, Coastal and Beach Protection Act) was authorized by the Legislature and Governor, and approved by the California Electorate in November 1992. It authorizes \$3.44 billion in bond sales. Included in this is \$435 million for drinking water projects, which earmarks state match funds to access Federal Awards through 2007.

4. *Ensure that all PWSs achieve and maintain compliance with the SDWA.*

Progress Toward Goal 4: A fundamental goal of DHS is to ensure safe and reliable drinking water for all Californians. In furtherance of this goal, the ability to use the resources of the SDWSRF loan fund and set aside programs enhances DHS' attempts to ensure that all PWSs have the technical, managerial and financial capacity to operate in compliance with the SDWA. Important elements of this include enhancing the technical knowledge of small water system personnel pertaining to compliance with regulatory requirements, and enhancing the technical knowledge of small water system operators regarding water treatment.

5. *Reduce the cost of drinking water.*

Progress Toward Goal 5: The loan resources of the SDWSRF Loan Program are focused on minimizing the per-household cost of protecting public health and delivering safe drinking water by providing subsidized financing for the construction of technically sound drinking water infrastructure and source water protection projects, and by developing PWS monitoring plans based on the conditions surrounding the source water. The SDWSRF program also provides support and encourages managerial and technical competency of water systems to foster effective and efficient system operation, and consolidation of smaller water systems when appropriate.

B. Progress Toward Short-Term Goals

1. *Maintain an efficient and effective Safe Drinking Water SRF Program for the State of California through planned evaluation and revision of the program.*

Progress Toward Goal 1: DHS developed the SDWSRF program based on its own experience in regulating PWSs, on the knowledge and experience of the drinking water industry and based on considerable public input received. DHS also meets regularly with the USEPA Region IX staff to discuss its SDWSRF program development activities. Additionally, the program manager is a member of the national Council of Infrastructure Financing Authorities, and participates on the USEPA/States SRF Workgroup and thus is in touch with concepts at USEPA and other states. As the Department proceeded through its fifth year of the program, a period of program evaluation and modification in response to self-identified areas and those identified by audits requiring improvement is now occurring. Standard procedures and processes for implementation of the program have been established and revised as needed.

2. *Continue implementation of the SDWSRF program.*

Progress Toward Goal 2: The first step in the process of implementing the SDWSRF program was the passage of enabling legislation (Senate Bill 1307). During this reporting period the Department did not receive a Federal Capitalization Grant. It has, however, received five grants from prior allocations (1997-2001) and obtained the 20% state match. The match from the first two grants came from cash in the General Fund. The matches for the 1999, 2000, and the 2001 grants was provided from general obligation bond authority available to the California SDWSRF

Program as a result of the passage by voters of Proposition 13 on March 7, 2000. That bond measure provided for the sale of \$1.97 billion in general obligation bonds for water related projects, including \$70 million for the SDWSRF Program. With the passage of Proposition 50 (the Water Security, Clean Drinking Water, Coastal and Beach Protection Act) by the Legislature and Governor, and approved by the California Electorate in November 1992, the sale of \$3.44 billion in bonds was authorized. Included in this is \$435 million for drinking water projects, which earmarks state match funds to access Federal Awards from 2002 through 2007.

3. *Maintain a PPL and an IUP.*

Progress Toward Goal 3: DHS notified every eligible PWS in the state of the annual opportunity to submit a preapplication for incorporation into the SDWSRF project priority list. The staff in the Department's district offices evaluated each preapplication and placed them in the appropriate health risk category. Bonus points were assigned based on the criteria developed by the Department. Regional Engineers and other departmental staff reviewed the PPL before its publication to ensure that the rating of the projects was consistent. The ranked listing of preapplications was compiled into the PPL. In 2002, the Department provided all public water systems with the opportunity to submit additional projects or update the information on projects already listed. Approximately 200 new or revised SDWSRF preapplications were received during the 2002 preapplication period. The Department held a public hearing in March 2003 on the draft 2003 updated PPL for the SDWSRF and adopted the 2003 updated list effective May 2003. In addition, the Department has invited community water systems and certain non-profit non-community water systems to submit preapplications for the Source Water Protection Project loan program priority list. The Department evaluated and ranked the proposed SWP projects, established a draft SWP project priority list, and included this list in the public hearing on the proposed list. The updated SWP PPL was adopted effective May 2003.

4. *Determine the fundable portion of the PPL and invite eligible public water systems to apply for funding.*

Progress Toward Goal 4: Projects are ranked based on health risk into SDWA compliance categories. An important goal of the SDWSRF Program is to fund those projects that are in high priority categories. DHS has determined that categories A through G are high priority categories. These categories contain projects to mitigate a current risk to public health or to correct a violation of the SDWA. DHS began inviting applications from eligible projects on the fundable list beginning in September 1998 (round 1) and as of June 30, 2003, has now progressed through round 10. DHS fundable lists have invited projects from as far down as category L in 2001. As a result of a high response rate to those invitations, DHS limited invitations in 2003, to only projects in categories B, C, D, and those in E with more than forty (40) or more bonus points. In May 2003, invitations were sent to 209 systems inviting them to submit applications for funding their projects. In addition, thirty (30) Source Water Protection Projects from twenty (20) water systems were invited.

5. *Develop and implement the set aside programs.*

Progress Toward Goal 5: DHS utilized portions of the Capitalization Grant to fund small water system technical assistance and capacity development programs. The Department implements these programs both by providing direct assistance to water systems, and by supporting local health department staff and outside providers to assist smaller water systems in meeting technical, managerial, and financial operations goals, and to aid these systems in applying for SDWSRF loan funds. For SFY 2002/03, DHS utilized surplus funds from prior Assistance Awards to fund small water system technical assistance, capacity development, administration of the SDWSRF program and for Source Water Protection Loans. To implement these programs, DHS hired staff and entered into Interagency Agreements and third party contracts, as needed, to make maximum use of resources.

IV. SDWSRF LOAN AND SET ASIDE ACTIVITIES

This section provides a detailed discussion of the SDWSRF assistance activities during SFY 2002/03. Details are provided on the sources of funding in DHS' program, the status of loan activities, and the status of set aside activities.

Tables 1 and 2 provide information about the sources and uses of SDWSRF funding. Table 1 displays all sources of SDWSRF funds available in SFY 2002/03. It also shows the binding commitments, workplan goals, and administrative funding uses made for the year. Table 2 shows DHS' actual disbursements in SFY 2002/03.

Table 3 displays cumulative projects funded (closed loans). If a project also has a forgiveness of principal component as part of the funding, it is shown separate from the loan amount.

Table 4 displays loan commitments for the federal funding years.

Table 5 displays Drinking Water Source Assessment progress.

Table 6 displays Drinking Water Source Assessments completed by type of system.

Table 7 displays SWP loans on the Project Priority List by number and cost per category.

Table 8 displays SWP Loan Set Asides.

Table 9 displays SWP Loan Binding Commitments.

Table 10 displays Environmental Clearances.

A. Sources of SDWSRF Funding

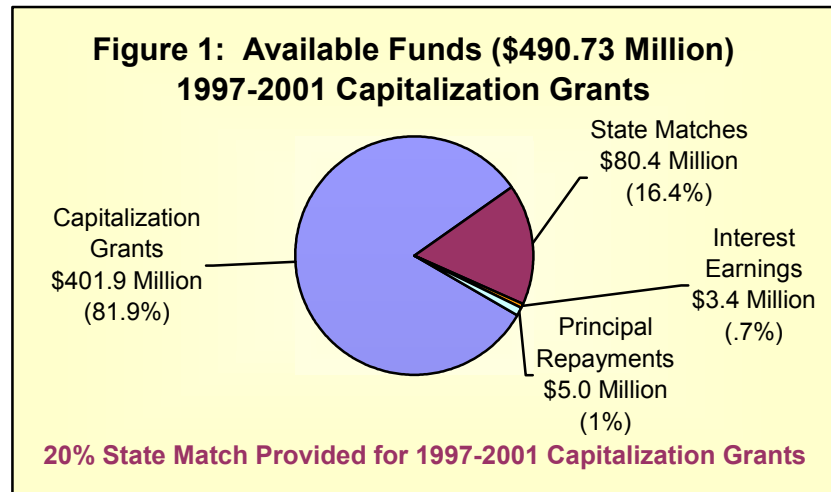
To date, DHS has applied for and received federal grants from the 1997 through 2001 grant allotment years. For the five years combined, DHS has USEPA authority to incur \$482,328,720 (\$90,819,120+\$92,529,840+\$96,980,040+\$100,791,720+\$101,208,000) of allowable funding for project costs. This represents \$401,940,600 in capitalization grants and \$80,388,120 in state match. These amounts do not include the 1:1 in-kind match. Cumulative interest earnings (investment and loan repayment) have added an additional \$3,414,327 in revenue (\$4,409 represents a late payment interest penalty), and cumulative principal repayments have added \$4,989,080, bringing the total sources of available funds for program funding to \$490,732,127. For this reporting period, total interest and principal repayment amounted to \$4,915,078.

☐ Capitalization Grants

The State of California was not awarded a capitalization grant for this reporting period. The cumulative total for the five years of awards (1997-2001) remains at \$401,940,600. The 20% required state match of \$80,388,120 increases total allowable funding to \$482,328,720. Total repayments plus interest earnings (\$8,403,407), boost total sources of funding to \$490,732,127.

☐ State Match

The State of California has cumulatively provided \$80,388,120 as the required 20% state match for the FFY 1997 – 2001 Capitalization Grants (see figure 1). The matches for the 1997 and 1998 grants were provided by General Fund money. The 1999-2001 grants came from General Obligation bond authority available to the



SDWSRF program as the result of the passage by voters of Proposition 13 on March 7, 2000. That ballot measure provided for the sale of \$1.97 billion in general obligation bonds for water related projects, including \$70 million for the Safe Drinking Water SRF loan program. The state budget for SFY 2002/03 provided the Department with the authority to apply for the FFY 2002 Capitalization Grant, though it was not received during this reporting period.

☐ Principal and Interest Repayments

Twenty-one (21) projects had principal and/or interest repayments due during SFY 2002/03. The amounts totaled \$4,758,741 (See Table 1) and were comprised of \$2,861,742 in principal curtailment and \$1,896,998 in interest income. Funding on PWS infrastructure projects began in SFY 1999/00 and repayments began in January 2001. Payments are due semiannually. The repayments (both principal and interest) are accounted for separately. The repayments have not yet been obligated. The loan corpus available for executing contracts with water systems as of June 30, 2003 was \$251,846,443 (\$440,291,690 in the loan fund from the 1997-2001 Capitalization Grants, a transfer of \$1,743,980 from set aside accounts to the loan fund from an amendment to the 1997 federal grant, less \$190,189,227 of funded projects (Table 3) as of June 30, 2003).

☐ Investment Interest Earnings

On March 20, 2002, the Pooled Money Investment Board of the Treasurer's Office approved DHS' request to invest its available cash on deposit with the State Controller's Office (SCO) in the Surplus Money Investment Fund (SMIF) for the SDWSRF Fund 629-01. It is the practice of the SMIF to invest in even multiples of one-thousand dollars (\$1,000), which results in a small uninvested balance in the cash account. The State Controller's Office apportions interest earnings to the fund at six-month intervals, effective June 30th and December 31st of each year. Available cash in the fund is comprised of remaining state match from the FFY 98 capitalization grant and revenue that is comprised of principal and interest repayments on loans to public water systems. For the year ending June 30, 2003, SMIF earnings posted to the fund amounted to \$156,337 (see Table 1). Cumulative SMIF earnings to the Loan Fund now total \$278,309. Another interest income component is late payment penalty. The fund has a cumulative total of

Table 1

TABLE 1: SOURCES AND USES OF COMMITTED SDWSRF FUNDING AS OF 6/30/03 (INCLUDES STATE & FEDERAL)				
SOURCES OF FUNDS	Prior Years 97-00 Grants ¹	SFY 2001/02 01 Grant	SFY 2002/03 No Grant	Cumulative Total
Capitalization Grant	317,600,600	84,340,000	0	401,940,600
State Match (GF 97&98, GO Bonds Thereafter)	63,520,120	16,868,000	0	80,388,120
Additional State Contributions	0	0	0	0
Investment Interest Earnings from Surplus Money Investment Fund	0	121,972	156,337	278,309
Principal Repayments	167,578	1,959,759	2,861,743	4,989,080
Interest Earnings on Loans (for loan obligations)	160,293	1,074,318	1,896,998	3,131,609
Late Payment Penalty on Loans (for loan obligations)	0	4,409	0	4,409
Bond Proceeds	0	0	0	0
TOTAL SOURCES OF FUNDS	381,448,591	104,368,458	4,915,078	490,732,127
USES OF COMMITTED FUNDS	Prior Years 97-00 Grants ²	Committed in 2002/03 99-00 Grants	Committed in 2002/03 01 Grant	Cumulative Total
SDWSRF LOAN ACCOUNT BINDING COMMITMENTS (F629)				
Standard Loans 1452(a) large systems - loan only	192,846,034	38,420,700	27,329,000	258,595,734
Disad. Communities 1452(d) includes zero interest & grants	46,399,221	0	0	46,399,221
Standard Loans Subtotal:	239,245,255	38,420,700	27,329,000	304,994,955
Small Systems 1452(a)(2)				
Standard - loan only	44,688,198	1,546,034	15,724,678	61,958,910
Disad. Communities 1452(d) includes zero interest & grants	18,587,031	2,120,093	4,178,500	24,885,624
Small Systems Subtotal:	63,275,229	3,666,127	19,903,178	86,844,534
Committed Loan Subtotal: (includes forgiveness of Principle)	302,520,484	42,086,827	47,232,178	391,839,489
Commitment Adjustments ³	23,959,618	0	0	23,959,618
Adjusted Committed Loan Subtotal: (includes forgiveness of principle)	326,480,102	42,086,827	47,232,178	415,799,107
Unclosed Loans (amount remaining to obligate) ⁴	0	0	26,236,563	26,236,563
Uses of Committed Funds Subtotal: (A)	326,480,102	42,086,827	73,468,741	442,035,670
SET-ASIDE ACCOUNT WORKPLAN COMMITMENTS	Prior Years ¹ 97-00 Grants	SFY 2001/02 FFY 01 Grant	SFY 2002/03 No Grant	Cumulative Total
Technical Assistance (max. 2%) 1452(g)(2) (F628) ⁵	3,226,743	1,686,800	0	4,913,543
State Program Management(max. 10% 1452(g)(2)				
Capacity Development (Wtr Sys Reliability Acct F626) ⁵	635,858	2,000,000	0	2,635,858
Local Assistance Other State Programs (max. 15%) 1452(k)				
Source Water Delineation and Assessment 1453(a)(2) (F627)	7,568,260			7,568,260
Land Acquisition/Source Water Protection Loans 1452(k)(1) (F629)	2,000,000	0	0	2,000,000
Unclosed SWP Loans (amount remaining to obligate) (F629)	6,240,490	4,217,000		10,457,490
Sources of Set-Aside Account Commitments Subtotal: (B)	19,671,351	7,903,800	0	27,575,151
SDWSRF ADMINISTRATION ACCOUNT COMMITMENTS	Prior Years ¹ 97-00 Grants	SFY 2001/02 FFY 01 Grant	SFY 2002/03 No Grant	Cumulative Total
4% Set-Aside 1452(g)(2) (F625)	9,344,300	3,373,600	0	12,717,900
Sources of Administration Account Commitments Subtotal: (C)	9,344,300	3,373,600	0	12,717,900
TOTAL USES OF COMMITTED FUNDS (A+B+C)	355,495,753	53,364,227	73,468,741	482,328,721

¹ FFY 97-00 allocations match to state fiscal years 98/99, 99/00, and 00/01

² FFY 97-00 grant commitments tie to state fiscal years 98/99, 99/00, 00/01, and 01/02

³ There are \$23,959,618 in adjustments to prior years, as follows: From the '97 grant, there are increases of \$642,000 for a SWS loan only to Santiago CWD and a \$1,034,698 SWS loan only to Trabuco Canyon WD. From the '98 grant, there are increases of \$5,906,603 for a large loan only to Sonoma CWA and \$3,408,447 and \$77,327 for two Hillview WC SWS disadvantaged loans. From the '99 grant, there is an increase of \$6,490,543 to Carpinteria Valley WD for a large loan only. Finally, from the '00 grant, there is an increase of \$6,400,000 to City of Santa Barbara for a large loan only. Adjustments from previous years arise from contract increases, amendments, deobligations and reobligations.

⁴ Unclosed loans are funds for projects that have not yet entered into a binding commitment with the SDWSRF program through the issuance of a Notice of Application Acceptance (NOAA).

⁵ The 1997 federal assistance award was amended 12/14/00 and reduced the technical assistance set aside by \$1,445,407 and capacity development by \$298,573. These amounts were returned to the loan fund and increased it by \$1,743,980. As of June 30, 2003, \$26,236,563 remained to be obligated from the 2001 federal Assistance Award.

Table 2

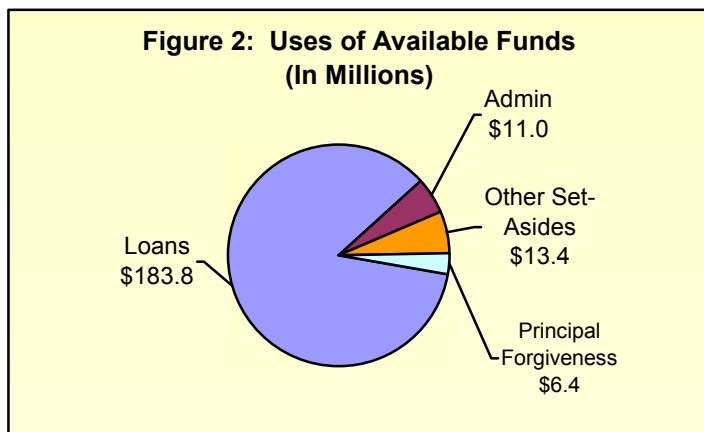
TABLE 2: USES OF DISBURSED SDWSRF FUNDING AS OF 6/30/03				
USES OF DISBURSED LOAN FUNDS	Prior Years 98/99-00/01	SFY 01/02 State & Fed.	SFY 02/03 State & Fed.	Cumulative Expenditures
SDWSRF LOAN ACCOUNT (F629)				
Standard Loans 1452(a)	21,930,272.03	37,263,490.35	5,722,788.34	64,916,550.72
Disadvantaged Communities 1452(d)	25,130,941.84	4,127,516.00	4,165,040.76	33,423,498.60
Standard Loans Subtotal: (A)	47,061,213.87	41,391,006.35	9,887,829.10	98,340,049.32
Small Systems 1452(a)(2)				
Standard	8,289,714.48	8,682,630.70	4,522,499.17	21,494,844.35
Disadvantaged Communities 1452(d)	677,467.45	4,505,445.85	1,862,238.72	7,045,152.02
Small Systems Subtotal: (B)	8,967,181.93	13,188,076.55	6,384,737.89	28,539,996.37
Total of Subtotals for Loan Fund: (A)+(B)	56,028,395.80	54,579,082.90	16,272,566.99	126,880,045.59
USES OF DISBURSED SET ASIDE ACCOUNTS	100% Federal	100% Federal	100% Federal	
Technical Assistance (max. 2%) 1452(g)(2) (F628)	2,173,561.21	1,394,178.32	1,226,298.69	4,794,038.22
State Program Management (max. 10%) 1452(g)(2)				0
Capacity Development (Water Sys. Reliability Acct F626)	258,221.54	551,211.41	1,396,116.91	2,205,549.86
Local Assistance Other State Programs (max. 15%) 1452(k)				0
Source Water Delineation and Assessment (F627)	2,094,527.12	1,914,147.00	2,350,694.02	6,359,368.14 ¹
Source Water Protection Loans (F629)	0.00	0.00	0.00	0.00
Subtotal: (C)	4,526,309.87	3,859,536.73	4,973,109.62	13,358,956.22
SDWSRF ADMINISTRATION ACCOUNT				
4% Set Aside 1452(g)(2) (F625)	5,648,252.34	2,805,305.45	2,505,519.95	10,959,077.74
Subtotal: (D)	5,648,252.34	2,805,305.45	2,505,519.95	10,959,077.74
Total of Subtotals for Set Asides: (C)+(D)	10,174,562.21	6,664,842.18	7,478,629.57	24,318,033.96
TOTAL LOAN AND SET ASIDE DISBURSEMENTS (A thru D)	66,202,958.01	61,243,925.08	23,751,196.56	151,198,079.55

¹ Cumulative expenditures as of 5/31/03 (the termination date of the SWAP Program) total \$6,359,368.14. In addition, there was \$604,315.34 in outstanding encumbrances on that date. Encumbrances represent funds reserved for purchases, contracts, or other activities prior to 5/31/03 but not yet billed and charged to the SWAP Program. The actual remaining funds in this set aside, estimated to be approximately \$600,000, will be rolled into the SDWSRF loan fund via an Assistance Award amendment to the 1997 capitalization grant.

\$4,409 in late payment interest penalties on loans. All interest payments were current on loans as of June 30, 2003.

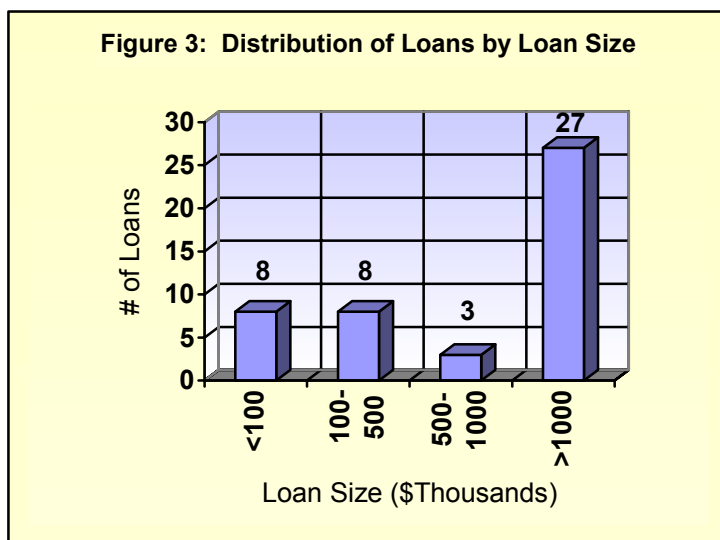
B. Uses of SDWSRF Funds

An amount of \$132,079,475 was provided in prior years for SDWSRF loans with an additional amount of \$5,062,466 for principal forgiveness, which brought total funded projects to \$137,141,941. During SFY 2002/03, SDWSRF loans provided \$51,712,103 in funding (this represents eleven (11) new projects plus some amendment increases on prior projects). Two (2) of the eleven (11) new projects also included a combination of principal forgiveness. One (1) of the eleven (11) was principal forgiveness only. Additionally, Bella Vista was dropped from the loan portfolio due to a withdrawal, resulting in a net project increase of 10 from the previous year. New projects with principal forgiveness (3) amounted to \$1,335,183, which brings total funding for the reporting period to \$53,047,286. Cumulative SDWSRF loans-to-date total \$183,791,578 along with principal forgiveness of \$6,397,649, which brings total funded projects to \$190,189,227 (see Table 3). This funding is made available to PWSs for infrastructure improvements. A total of forty-six (46) contracts representing forty-five (45) projects have now been funded, ten (10) of which have principal forgiveness. During SFY 2002/03, the program also spent \$1,226,299 in set aside assistance for Small Water System Technical Assistance (\$4,794,038 cumulative), \$1,396,117 for Capacity Development (\$2,205,550 cumulative), \$2,350,694 for Source Water Delineation & Assessment (\$6,359,368 cumulative), and \$2,505,520 for Program Administration (\$10,959,078 cumulative). Total set aside expenditures as of June 30, 2003 total \$7,478,630 (\$24,318,034 cumulative). Please see figure 2.



Loan Assistance Status

The SDWSRF entered into forty-two (42) loan agreements (6 of the 42 include loans + principal forgiveness) and four (4) principal forgiveness only agreements as of June 30, 2003, bringing the total executed contract agreements to forty-six (46). The portfolio consists of \$183,791,578 in loans and \$6,397,649 in principal forgiveness, which brings total project funding to \$190,189,227. This represents forty-five (45) projects from 41 public water systems (46 contracts).



The loans range in size from \$25,000 to \$20 million (See Figure 3). The average loan repayment period for the 42 loans is 19.05 years with an average interest rate of 1.71%. The water systems receiving these loans serve approximately 8.6 million people. Systems receiving SDWSRF loans range in size from 16 to 3.7 million people (See Figure 4). Seventeen (17) of the systems are considered disadvantaged and thirty (30) are small water systems. Six (6) systems representing seven (7) projects received a 0% interest loan and no principal forgiveness. Six (6) systems representing six (6) projects received a combination of a 0% interest loan and principal forgiveness. Four (4) systems representing four (4) projects received just principal forgiveness loans. Disbursed loan funds as of June 30, 2003 total \$126,880,046 (Table 2). Of this amount, the federal share is \$104,041,638 (82%) and the state share is \$22,838,408 (18%).

☐ Binding Commitments

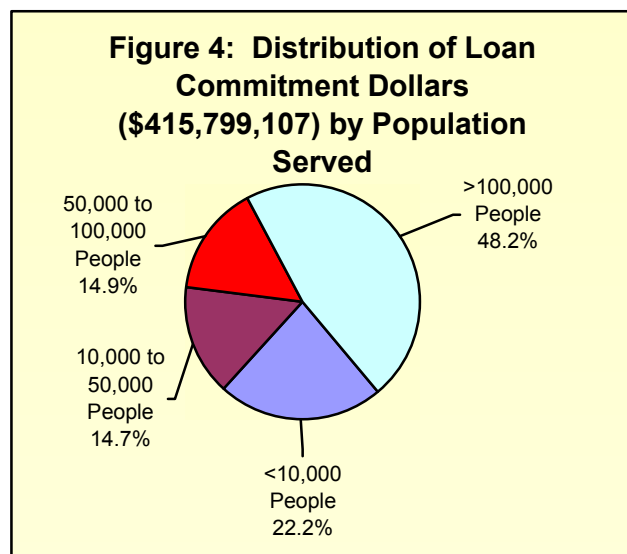
On a cumulative basis, the SDWSRF Program has obligated (entered into binding commitments) 93.9% (\$415,799,107/\$442,035,670) of all available loan funds to projects. This utilizes 121.9% (\$95,554,136/\$78,407,174+\$1,743,980 return to loan fund) of the federal FY 1997 capitalization grant loan funds, 116% (\$101,506,905/\$87,594,915) of the federal FY 1998 capitalization grant loan funds, 85.4% (\$74,836,314/\$87,766,936) of the FFY 1999 capitalization grant loan funds, 100.1% (\$96,669,574/\$96,592,065) of the FFY 2000 capitalization grant loan funds, and 52.5% (\$47,232,178/\$89,930,600) of the FFY 2001 capitalization grant loan funds. Over obligations of the FFY 1997, 1998, and 2000 capitalization grants are absorbed through the under obligations of the 1999 and 2001 capitalization grant loan funds. Table 4 lists the loan commitments from the FFY 1997 through 2001 grants and provides a brief description of each project. The State of California has met all federal deadlines for obligating loan funds for each of the grant years.

☐ Project Bypass

There were some PWS projects that were bypassed due to either applicant request or non-submittal of required documents. See Appendix F for a report on PWS projects that were bypassed. Applicants that appear on the bypass list continue to be invited again in the next round of invitations if their project falls within the fundable categories.

☐ Small Systems

The SDWSRF Program requires that 15% of the loan fund be committed to small water systems. Small water systems are defined as those that have less than 10,000 service connections. For the five federal grants (FFY 1997 through FFY 2001) received by the Department, small water system commitments have been made against all grants. Total commitments against the five grants average 22.2%, which is derived from the total amount committed to 75 small water systems of \$92,275,346 divided by the total commitments



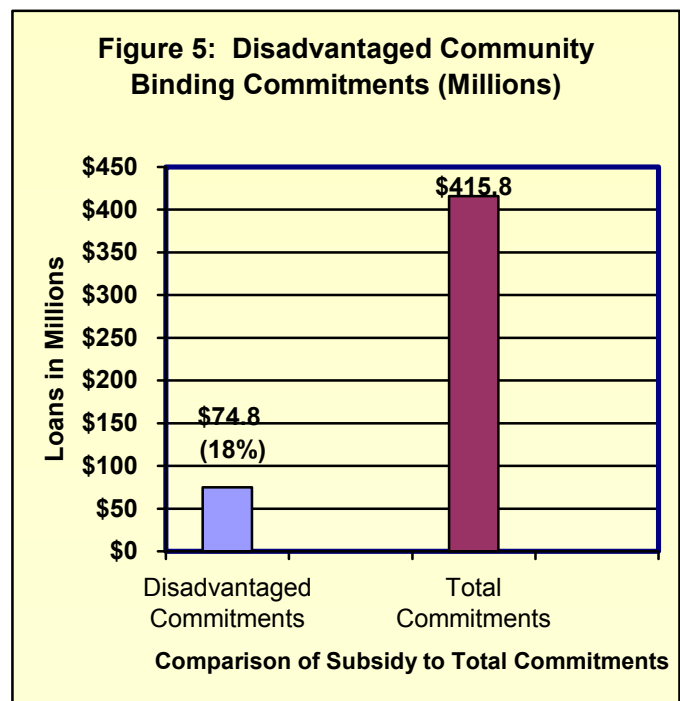
of \$415,799,107. By year, this is comprised of \$19,324,526/\$95,554,136 or 20.2% of commitments against the FFY 1997 grant, \$22,000,867/\$101,506,905 or 21.7% of commitments against the FFY 1998 grant, \$15,227,646/\$74,836,314 or 20.3% of commitments against the FFY 1999 grant, \$15,819,129/\$96,669,574 or 16.4% of commitments against the FFY 2000 grant, and \$19,903,178/\$47,232,178 or 42.1% of commitments against the FFY 2001 grant. Of the 114 total projects listed in Table 4, 75 of them (65.8%) are for small water systems.

❑ Disadvantaged Community Systems

In accordance with Section 117671.65(b) of the California Health and Safety code, all loans to disadvantaged communities will carry a zero percent interest rate. The offer of additional assistance will be dependent upon the disadvantaged community's ability to repay the loan and stay within the target consumer rate (TCR). Factors such as household income levels, current and projected monthly consumer water charges, and the cost of the proposed project become determining factors in establishing the TCR for a community.

The determination as to whether a disadvantaged community qualifies for additional financial assistance beyond 0% interest will not be made until the Department of Water Resources completes its evaluation of the revenue program, project costs, and other financial information contained in the full project application. Therefore, while a public water system may be able to determine in advance whether or not they qualify as a disadvantaged community, they will not know if additional financial assistance will be provided until the full application process is completed.

For the five Capitalization Grants received to date, the Department has committed \$74,770,619 to disadvantaged communities, which equates to 18% of all commitments (\$74,770,619 divided by \$415,799,107). This is comprised of \$36,434,053 from the FFY 97 grant, \$22,949,281 from the FFY 98 grant, \$4,120,665 from the FFY 99 grant, \$7,088,120 from the FFY 00 grant, and \$4,178,500 from the FFY 01 grant. A total of 40 out of 114 total projects (35%) qualify as disadvantaged. Of the 40 projects deemed disadvantaged, 33 are receiving a 0% interest rate (\$62,056,145 or 14.9% of commitments); and 26 are also receiving principal forgiveness (\$12,714,474 or 3.1% of loan commitment dollars) on their loans. According to Section 35.3525(b) of the federal law, DHS may provide for principal forgiveness up to 30% for each Capitalization Grant. DHS is well within the limit for each year.



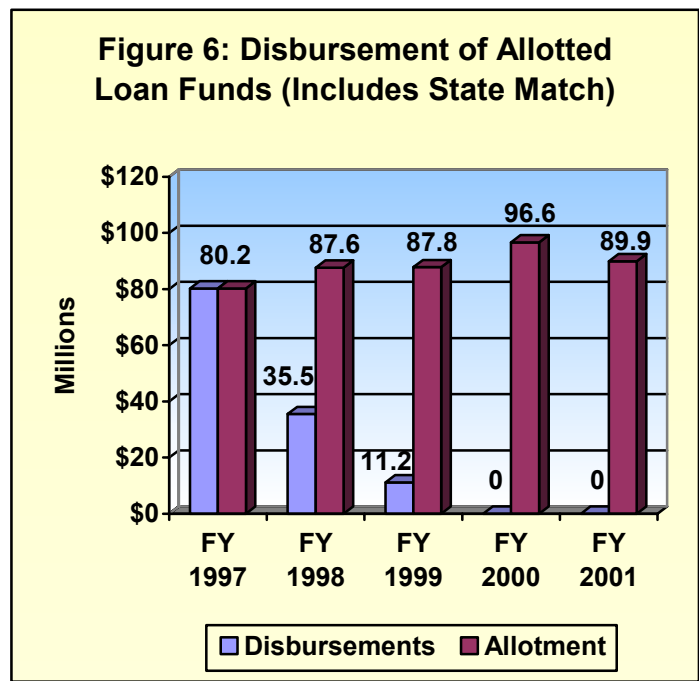
❑ Disbursements

As of June 30, 2003, total loan fund disbursements amounted to \$126,880,046 (Figure 6). This is comprised of \$16,272,567 for this reporting period and \$110,607,479 from prior reporting periods. Appendix C summarizes all aggregate disbursements for the California SDWSRF Program (set asides and the loan fund). Loan disbursements to public water systems for the current reporting period were charged against the 1998 and 1999 federal Assistance Awards.

Disbursements against the 1998 grant amounted to \$5,033,143.18 and those for the 1999 grant totaled \$11,239,423.81.

Cumulative disbursements against the 1997 grant, which has been totally expended, are \$80,151,154. In addition, \$35,489,468 has been disbursed against the 1998 grant, and \$11,239,424 against the 1999 grant. No funds have been disbursed from the 2000 and 2001 Assistance Awards. The 1998 grant has \$52,105,447 (\$87,594,915 - \$35,489,468) remaining and the 1999 grant has \$76,527,512 (\$87,766,936 - \$11,239,424) remaining.

Loan claims (invoices) are received and reviewed by our contractor, the Department of Water Resources (DWR), for conformity to the loan agreement and forwarded to DHS for approval, processing, and payment. In California, the State Controller is responsible for disbursing funds.



FUNDED PROJECTS (Closed Loans) 1997, 1998, 1999, 2000, & 2001 CAPITALIZATION GRANTS
As of June 30, 2003

Table 3
1997 Grant

Priority Ranking	System Name	Loan Amount	Principal Forgiveness	Project Description	Population Served	Service Connections	Small System	Disadvantaged Community	Executed Contract Date
C	El Dorado Irrigation District	\$915,293	0	This project is for lining and covering reservoir #4 with a rigid cover and constructing a bypass	85,000	29,518	No	No	5/1/00
C	El Dorado Irrigation District	\$1,171,500	0	This project is for lining and covering reservoir #3 with a rigid cover and constructing a bypass	85,000	29,518	No	No	5/1/00
C	El Dorado Irrigation District	\$1,045,711	0	This project is for lining and covering reservoir #5 with a rigid cover and constructing a bypass	85,000	29,518	No	No	5/1/00
C	El Dorado Irrigation District	\$1,711,000	0	This project is for lining and covering reservoir #6 with a rigid cover and constructing a bypass	85,000	29,518	No	No	5/1/00
B	Solano Irrigation District	\$2,127,300	0	This project is for construction of a central water treatment plant for all water used in Gibson Canyon Improvement District	450	155	Yes	No	2/1/00
D	City of Brawley	\$16,050,000	0	This project has constructed a new water plant to correct violations	22,000	4,781	No	Yes	6/19/01

FUNDED PROJECTS (Closed Loans) 1997, 1998, 1999, 2000, & 2001 CAPITALIZATION GRANTS
As of June 30, 2003

Table 3
97 Grant Continued

Priority Ranking	System Name	Loan Amount	Principal Forgiveness	Project Description	Population Served	Service Connections	Small System	Disadvantaged Community	Executed Contract Date
D	C.C.W.D., West Point	\$0	1,000,000	This project will use the money to assist with a new surface water treatment plant	1,150	543	Yes	Yes	6/19/01
D	City of Vallejo – Lakes Water System (Gordon Valley)	\$6,675,000	0	This project is associated with the construction of a 1.1 million gallon clearwell and storage reservoir	2,000	790	Yes	No	7/24/00
D	Redwood Homes El Novato Trailer Park (Taylor Investments)	\$92,800	0	This project will connect mobiles homes to city water	46	46	Yes	No	10/3/00
C	Humboldt Bay MWD	\$11,677,030	0	Phased construction to provide full treatment	80,000	29,348	No	Yes	12/19/00
C	L.A. City Department of Water & Power	\$17,751,425	0	This project provides an underground Bypass pipeline for the lower Hollywood Reservoir, 60 Mg. of covered, filtered water storage in 2 buried tanks, a small-scale microfiltration plant, and a new water trunk line	3.7 million	662,783	N	N	5/17/01
D	City of Westmorland	\$670,632	1,000,000	This project will construct a new water treatment plant	1718	622	Yes	Yes	12/13/00

FUNDED PROJECTS (Closed Loans) 1997, 1998, 1999, 2000, 2001 CAPITALIZATION GRANTS
As of June 30, 2003

Table 3
97 Grant Continued

Priority Ranking	System Name	Loan Amount	Principal Forgiveness	Project Description	Population Served	Service Connections	Small System	Disadvantaged Community	Executed Contract Date
C	Wiest Lake County Campground	\$83,710	0	This project will construct a 10 gpm surface water treatment plant	34	34	Yes	No	5/17/01
D	City of Brawley	\$4,127,516	0	This is the second contract for a project to fund construction of a new water plant	22,000	4,752	No	Yes	1/28/02
B	Richardson Beardsley	\$92,500	0	This project will replace defective piping and tank and drill new well	66	20	Yes	No	7/6/01
B	Sierra Mobile Home Park	\$72,500	0	Install an interconnection to the City of Fresno	250	128	Yes	Yes	3/8/02
C	Santiago CWD	\$1,300,000	0	Well head injection, mixing treatment & removal	2500	700	Yes	No	5/7/03
C	Terra Bella ID	\$1,230,000	0	Refinance Debt	4494	651	Yes	Yes	9/20/01
C	Terra Bella ID	\$102,000	\$408,000	Extend Distribution Mains	4494	651	Yes	Yes	4/4/02
TOTAL CLOSED LOANS 97		\$66,895,917	\$2,408,000		4,513,708*		11	8	
COMBINED AMOUNTS		\$69,303,917¹							

* Excludes duplicate population #'s for systems with more than one project serving the same area

¹ See next page for statistical summary

Statistical Summary of Funded Projects from the 1997 Capitalization Grant

¹ Total Funded Projects for the 1997 Capitalization Grant = \$69,303,917 (\$66,895,917 loans + \$2,408,000 forgiveness of principal)
As of 6/30/03, the number of projects awarded loan contracts/forgiveness of principal from the '97 Capitalization Grant = 19 projects

Note: (The City of Brawley has 2 contracts for 1 project.)

16 of the 19 projects were awarded loans that must be repaid totaling \$66,123,285

2 of the 19 projects were awarded loans of \$772,632 and forgiveness of principal of \$1,408,000

1 of the 19 projects was awarded a forgiveness of principal of \$1,000,000

Number of small water systems funded by the '97 Capitalization Grant = 11 for \$14,854,442

Total population served by the '97 Capitalization Grant is approximately 4.154 million

Number of disadvantaged systems funded by the '97 Capitalization Grant = 8 for \$36,337,678

Average interest rate for the '97 Capitalization Grant = 1.97%

Average repayment period for the '97 Capitalization Grant = 20 years

0% interest loans were given to 5 systems covering 7 projects (City of Brawley – 2 loans, Humboldt Bay MWD, City of Westmoreland, Terra Bella Irrigation District – 2 loans, and Sierra Mobile Home Park)

FUNDED PROJECTS (Closed Loans) 1997, 1998, 1999, 2000, & 2001 CAPITALIZATION GRANTS
As of June 30, 2003

Table 3
1998 Grant

Priority Ranking	System Name	Loan Amount	Principal Forgiveness	Project Description	Population Served	Service Connections	Small System	Disadvantaged Community	Executed Contract Date
B	Faye Ranch Properties	\$50,000	0	Replace the well	25	12	Yes	No	5/17/01
C	Asoleado MWC	\$61,390	0	Install an appropriate filtration system	52	35	Yes	No	5/7/01
D	City of Anaheim	\$18,062,849	0	The Plant was closed down and reconstructed in order to comply with the Surface Water Filtration and Disinfection Treatment Regulations	300,500	59,484	No	No	6/8/01
E	Sonoma County Water Agency Amendment - 1	\$9,952,386 <u>\$5,906,603</u> \$15,858,989	0	Design and construction of one additional Ranney Collector Well with 20 mgd capacity and connecting pipeline	500,000	500,000	No	No	3/15/01 10/23/02
E	City of Crescent City	\$7,000,000	\$1,000,000	Installation of additional transmission pipeline and storage tank	13,831	3,749	No	Yes	6/26/01
G	Hillview WC-Oakhurst/Sierra Lakes	\$25,000	0	Planning loan	2,270	908	Yes	Yes	11/15/00
C	Grenada Sanitary District	\$505,000	\$970,000	Construct new wells, storage facilities, replace mains	250	100	Yes	Yes	6/30/03

FUNDED PROJECTS (Closed Loans) 1997, 1998, 1999, 2000, & 2001 CAPITALIZATION GRANTS
As of June 30, 2003

Table 3
1998 Grant Continued

Priority Ranking	System Name	Loan Amount	Principal Forgiveness	Project Description	Population Served	Service Connections	Small System	Disadvantaged Community	Executed Contract Date
D	Happy Camp CSD	\$0	\$1,000,000	Install additional filter and water meters	1,100	433	Yes	Yes	5/3/02
C	River Pines PUD	\$190,000	\$140,000	Drill replacement well near filtration plant	509	193	Yes	Yes	2/21/03
D	Whitethorn Elementary	\$28,616	114,666	Install new complete filtration	62	1	Yes	Yes	5/9/02
E	Rural North Vacaville Water District	\$8,984,099	0	Design and construct a water system	900	272	Yes	No	11/2/01
TOTAL CLOSED LOANS 98		\$50,765,943	\$3,224,466		549,049		8	6	
COMBINED AMOUNTS		\$53,990,409¹							

Statistical Summary of Funded Projects from the 1998 Capitalization Grant

¹ Total Funded projects for the 1998 Capitalization Grant = \$53,990,409 (\$50,765,943 loans + \$3,224,466 forgiveness of principal)
As of 6/30/03, the number of projects awarded loan contracts/forgiveness of principal from the '98 Capitalization Grant = 11 projects
6 of the 11 projects were awarded loans totaling \$43,042,327
4 of the 11 projects were awarded loans of \$7,723,616 and forgiveness of principal of \$2,224,466
1 of the 11 projects was awarded forgiveness of principal totaling \$1,000,000
Number of small water systems funded by the '98 Capitalization Grant = 8 for \$12,068,571
Total population served by the '98 Capitalization Grant is approximately 549,049
Number of disadvantaged systems funded by the '98 Capitalization Grant = 6 for \$10,973,082
Average interest rate for the '98 Capitalization Grant = 1.23%
Average repayment period for the '98 Capitalization Grant = 18.1 years
0% interest loans were given to 5 systems (City of Crescent City, Hillview WC-Oakhurst/Sierra Lakes Whitehorn Elementary School, Grenada Sanitary District, and River Pines PUD)

FUNDED PROJECTS (Closed Loans) 1997, 1998, 1999, 2000, & 2001 CAPITALIZATION GRANTS
As of June 30, 2003

Table 3
1999 Grant

Priority Ranking	System Name	Loan Amount	Principal Forgiveness	Project Description	Population Served	Service Connections	Small System	Disadvantaged Community	Executed Contract Date
D	Sereno Del Mar Water Company	\$250,000	0	Construct a new SWT plant and a new water storage source	300	132	Yes	No	5/7/01
I	East Bay MUD	\$2,188,000	0	Install oxygenation system to reduce TOC levels	1,200,000	370,000	No	No	7/22/02
D	Ford's Acres Mobile Home Park	\$187,000	0	Drill well for groundwater	150	46	Yes	No	5/3/02
D	Grizzly Flats CSD	\$268,629	0	Install a second treatment unit	1,200	469	Yes	No	10/19/01
C	San Luis Obispo (Lopez Project)	\$300,000	0	Construct new well	16	1	Yes	No	3/5/03
D	Sierra Lakes County Water District	\$1,312,000	0	Install additional filter capacity	2,660	653	Yes	No	3/27/02
D	Serrano Water District	\$3,542,373	0	Refinance Project	6,500	2,250	Yes	No	12/5/01
E	Carrick Water System	\$0	\$540,000	Develop new source separated from sewage	142	54	Yes	Yes	6/3/02
I	City of Angels	\$1,521,440	0	Install new filter	3,004	1,382	Yes	Yes	3/1/02
I	Contra Costa WD	\$15,137,776	0	Refinance Project	200,000	58,119	No	No	4/12/02
TOTAL CLOSED LOANS 99		\$24,707,218	\$540,000		1,413,972		8	2	
COMBINED AMOUNTS		\$25,247,218¹							

¹ See next page for statistical summary

Statistical Summary of Funded Projects from the 1999 Capitalization Grant

¹ Total funded projects for the 1999 Capitalization Grant =\$25,247,218 (\$24,707,218 loans + \$540,000 forgiveness of principal)
As of 6/30/03, the number of projects awarded loan contracts/forgiveness of principal from the '99 Capitalization Grant = 10 projects
9 of the 10 projects were awarded loans totaling \$24,707,218
1 of the 10 projects was awarded a forgiveness of principal in the amount of \$540,000
Number of small water systems funded by the '99 Capitalization Grant = 8 for \$7,921,442
Total population served by the '99 Capitalization Grant is approximately 1,413,927
Number of disadvantaged systems funded by the '99 Capitalization Grant = 2 for \$2,061,440
Average interest rate for the '99 Capitalization Grant = 2.265%
Average repayment period for the '99 Capitalization Grant = 19.33 years
0% interest loans were given to 1 system (City of Angels)

FUNDED PROJECTS (Closed Loans) 1997, 1998, & 1999 CAPITALIZATION GRANTS
As of June 30, 2003

Table 3
2000 Grant

Priority Ranking	System Name	Loan Amount	Principal Forgiveness	Project Description	Population Served	Service Connections	Small System	Disadvantaged Community	Executed Contract Date
J	City of Tehama	0	\$225,183	Install automatic standby generator and storage tank	435	193	Yes	Yes	10/2/02
H	Escondido, City of	\$2,048,125	0	Construct pressurized pipeline replacement	127,800	23,917	No	No	11/18/02
E	Lake Combie MHP	\$74,375	0	Connect to Nevada Irrigation District	65	24	Yes	No	12/31/02
E	Meadow Vista CWD	\$100,000	0	Planning study	3,200	1,160	Yes	No	1/31/01
I	Metropolitan WD	\$20,000,000	0	Install ozonation facilities at the Mills treatment plant	2,260,000	647	No	No	6/30/03
I	Santa Barbara WD	\$19,200,000	0	Redesign filters, chemical handling of filter to waste, sludge handling & decant return systems	95,000	25,282	No	No	9/27/02
TOTAL CLOSED LOANS 00		\$41,422,500	\$225,183		2,486,500	51,223	3	1	
COMBINED AMOUNTS		\$41,647,683¹							

Statistical Summary of Funded Projects from the 2000 Capitalization Grant

¹ Total funded projects for the 2000 Capitalization Grant = \$41,647,683 (\$41,422,500 loans + \$225,183 forgiveness of principal)
As of 6/30/03, the number of projects awarded loan contracts/forgiveness of principal from the '00 Capitalization Grant = 6 projects
5 of the 6 projects were awarded loans totaling \$41,422,500
1 of the 6 projects was awarded a forgiveness of principal in the amount of \$225,183
Number of small water systems funded by the '00 Capitalization Grant = 3 for \$399,558
Total population served by the '00 Capitalization Grant is approximately 2,486,500
Number of disadvantaged systems funded by the '99 Capitalization Grant = 1 for \$225,183
Average interest rate for the '00 Capitalization Grant = 2.46%
Average repayment period for the '99 Capitalization Grant = 17 years

TABLE 3

STATISTICAL SUMMARY OF FUNDED PROJECTS FOR ALL GRANT YEARS THROUGH JUNE 30, 2003

Summary of all Funded Projects from the '97, '98, 99, '00, & '01 Capitalization Grants as of June 30, 2003	
Total Number of Funded Projects (4 of the 46 were 100% principal forgiveness)	46
42 Projects representing 41 water systems funded with loans that need to be repaid \$183,791,578 (6 of 42 projects are a combination of loans and principal forgiveness (<i>loan portion</i> = \$8,496,248))	
10 Projects representing 10 water systems (4 of which are principal forgiveness only (\$2,765,183) and 6 of which are part forgiveness of principal (\$3,632,466) <u>6,397,649</u>	
Total Amount of Projects Funded by Loans and Forgiveness of Principal Loans →	46 for a total of \$190,189,227
Total Forgiveness of Principal (6 projects combined 0% P & I forgiveness; 4 were only principal forgiveness)	10 projects for \$6,397,649
Total Population Served 8,884,970-281,494 in duplicate water systems =	8,603,476
Number of Disadvantaged Systems & Amount Funded 17 for \$49,597,383	
Systems receiving just principal forgiveness loans	4 for \$2,765,183
Systems receiving just 0% loans	7 for \$34,703,486
Systems receiving both principle forgiveness & 0% loans (6 for \$3,632,466 & \$8,496,248 respectively)	6 for \$12,128,714
Number of Small Water Systems & Amount Funded	30 for \$35,244,013
Systems receiving 0% Interest (5 with 0% interest and 6 with both 0% interest and principal forgiveness)	
There are 13 projects representing 11 water systems	11
Average Interest rate for loan portfolio	1.98%
Average Repayment period for loan portfolio	18.6 years

Report on Binding Commitments for the 1997, 1998, 1999, 2000, & 2001 CAPITALIZATION GRANTS
As of June 30, 2003 (Includes Executed Contracts)

Table 4
1997 Grant

Priority Ranking	System Name	Amount Committed	NOAA	Project Description	Population Served	Small System	Disadvantaged Community
D	City of Brawley	\$19,950,991	9/29/99	The city has approved and undertaken the construction of a new water plant to correct violations. The monies will be used to refinance the plant.	21,000	No	Yes
D	C.C.W.D., West Point	\$1,000,000	9/28/99	Replace with new surface water treatment plant	1,150	Yes	Yes
D	City of Vallejo	\$6,675,000	9/30/99	Associated with the construction of a 1.1 million gallon clearwell and storage reservoir.	2,000	Yes	No
C	El Dorado Irrigation District	\$915,293	9/30/99	This project is for lining and covering reservoir #4 with a rigid cover and constructing a bypass	85,000	No	No
C	El Dorado Irrigation District	\$1,045,711	9/30/99	This project is for lining and covering reservoir #5 with a rigid cover and constructing a bypass	85,000*	No	No
C	El Dorado Irrigation District	\$1,171,500	9/30/99	This project is for lining and covering reservoir #3 with a rigid cover and constructing a bypass	85,000*	No	No
C	El Dorado irrigation District	\$1,711,000	9/30/99	This project is for lining and covering reservoir #6 with a rigid cover and constructing a bypass	85,000*	No	No
D	El Novato Trailer Park	\$92,800	9/28/99	Connect mobile homes to city water, North Marin Water District.	75	Yes	No
C	Humboldt Bay MWD	\$11,677,030	7/30/99	Phased construction to provide full treatment	65,000	No	Yes
C	City of L.A. Department of Water & Power	\$22,275,000	9/29/99	This project is a component from project 01. It is called Unit 4 Hollywood trunk line.	3,700,000	No	No
C	City of L.A. Department of Water & Power	\$17,751,425	9/29/99	An underground bypass pipeline for the lower Hollywood reservoir, 60 MG of covered, filtered water storage in 2 buried tanks, a small scale microfiltration plant, and a new water trunk line connecting the Hollywood area & lower Stone Canyon Reservoir	3,700,000*	No	No

Table 4 (Continued)
1997 Grant

Priority Ranking	System Name	Amount Committed	NOAA	Project Description	Population Served	Small System	Disadvantaged Community
B	Richardson-Beardsley Inc.	\$92,500	9/27/99	Replace defective piping and tank and drill new well to community standards; install appropriate backflow devices, as needed.	42	Yes	No
B	San Pasqual Union School	\$100,000	9/27/99	Develop new safe well as primary source. Test well to be drilled first to verify water quality.	250	Yes	No
C	Santiago County Water District	\$658,000 A-1 642,000 \$1,300,000	9/28/99 5/7/03	Well head injection, mixing treatment and removal.	2,300	Yes	No
B	Sequoia Crest Mutual Water Company	\$159,108	9/27/99	Replace tanks with new 150,000-gallon storage tank.	200	Yes	No
B	Sierra Mobile Home Park	\$103,400	9/28/99	Install an interconnection to the City of Fresno.	325	Yes	Yes
C	Solano Irrigation District	\$2,281,300	6/3/99	This project is for construction of a central water treatment plant for all water used in Gibson Canyon improvement District	450	Yes	No
C	Terra Bella Irrigation District	\$510,000	8/13/99	Extend distribution mains from new SWTP to serve this area.	3500	Yes	Yes
C	Terra Bella irrigation District	\$1,230,000	8/13/99	Refinancing the existing debt at a lower interest rate.	3500*	Yes	Yes
C	Trabuco Canyon Water District	\$1,946,038 A-1 \$1,034,698 \$2,980,736	9/29/99 6/10/03	Possible conversion to full surface water treatment rule treatment.	8550	Yes	No
W	TUD- Rim rock ditch conveyance project	\$282,000	9/27/99	Install a water treatment plant, tank, and water lines to serve the individual ditch customers.	110	Yes	Yes
B	Voyles Trailer Park	\$10,000	9/27/99	Drill new well.	40	Yes	Yes
D	City of Westmoreland	\$1,670,632	12/22/99	Construct a 2 million gallon per day water treatment plant and a 700,000-gallon storage tank.	2300	Yes	Yes
C	Wiest Lake County Campground	\$82,050 A-1 \$1,660 \$83,710	9/24/99 6/3/02	Install the system as shown in the included design.	25	Yes	No
B	Yosemite Spring Park Utility Co.	\$485,000	8/16/99	Drill new wells, install automatic operating and monitoring controls, and distribution improvements	3300	Yes	No
Total 1997 Grant Commitments		\$95,554,136			3,895,617	17	9

* Duplicate systems, so population is not added twice

Statistical Summary of the 1997 Capitalization Grant Commitments

Number of project commitments from the 97 Capitalization grant as of 6/30/03.....	25
Amount of project commitments from the 97 Capitalization grant as of 6/30/03.....	\$95,554,136 (121.9% of amt. to commit)
Total population served.....	3,895,617
Number of disadvantaged systems.....	9
Disadvantaged water system project commitments from the Capitalization grant as of 6/30/03..	\$36,434,053 (38.1% of commitments)
Number of small water systems.....	17
Small water system project commitments from the 97 Capitalization grant as of 6/30/03.....	\$19,324,526 (20.2% of commitments)
Number of water systems receiving 0% interest rate commitments.....	8
Amount of project commitments receiving a 0% interest rate.....	\$33,806,053 (35.4% of commitments)
Number of water systems receiving forgiveness of principal.....	4
Amount of project commitments receiving forgiveness of principal.....	\$2,628,000 (2.8% of commitments)
Adjusted Commitment loans including forgiveness of principal.....	\$1,676,698
(Adjustment to Trabuco Canyon Water District SWS loan only & Santiago CWD SWS loan only)	

Table 4 (Continued)
1998 Grant

Priority Ranking	System Name	Amount Committed	NOAA	Project Description	Population Served	Small System	Disadvantaged Community
C	Asoleado MWC	\$61,390	2/7/00	Install appropriate filtration system or drill deeper wells	140	Yes	No
D	Bella Vista Water District	\$100,000	2/3/00	Study and pre-design for water treatment plant to meet CT disinfection regulation.	12,861	No	No
B	City of Blythe	\$6,771,200	9/29/99	Construct a new water facility including supply wells, filtration, storage reservoirs, and a distribution pipeline loop.	12,155	No	Yes
C	Donner Lake Water Company	\$3,691,324	9/28/99	Replacement of existing tank with a 500,000 gallon tank and addition of a booster facility	2,800	Yes	No
B	Faye Ranch Properties	\$50,000	11/1/99	Find source and stop access; replace well. Study and design	25	Yes	No
C	Lake Canyon Mutual Water Company	\$300,000	3/3/00	Site for treatment has been acquired; treatment system has been purchased and design engineering has been completed. They estimate 9 months for the construction of the treatment system. Replacement of aged mains is planned.	175	Yes	No
B	One Hundred Palms Resort	483,850	2/11/00	Consolidate with an adjacent public water system, develop a well, and construct a storage tank.	150	Yes	Yes
C	City of Los Angeles – Dept. of Water & Power	\$16,642,000	9/29/99	9.7 MGD Microfiltration plant at Hollywood Reservoir	3,700,000	No	No
C	Grenada WC	\$1,035,000	9/29/00	Construct new deep wells with separation from sewage hazards; construct storage facilities	250	Yes	Yes
C	River Pines PUD	\$330,000	9/29/99	Drill replacement well close to filtration plant to assure continuous supply of microbiologically safe water,	500	Yes	Yes
E	Rural North Vacaville Water District	\$9,055,832	6/28/00	Design and construct a water system for the district.	1500	Yes	No
C	SLO CWWD No. 6 – Santa Margarita	\$500,000	6/1/00	Locate and identify a new groundwater source, purchase right-of-way, design & construct well and new transmission line.	1200	Yes	No
W	Tinnemaha Campground	\$27,500	4/11/00	Construct a new well, tank, and distribution system.	400	Yes	No

Table 4 (Continued)
1998 Grant

Priority Ranking	System Name	Amount Committed	NOAA	Project Description	Population Served	Small System	Disadvantaged Community
B	TUD-Cattle Drive Ditch Conveyance	\$405,150	12/22/99	Construct a water treatment plant, storage tank, and pipelines to serve the individual ditch customers.	30	Yes	Yes
B	TUD-Expedition Drive Ditch Conveyance	\$36,740	3/1/00	Install water lines to connect the individual ditch customers to TUD's scenic view water system.	25	Yes	No
W	TUD-Last Chance Water Company	\$100,000	3/21/00	Install a pipeline to interconnect to TUD's upper basin system.	15	Yes	Yes
B	TUD-Lower Columbia Ditch Conveyance	\$623,300	12/22/99	Install a pump station, tank, and pipelines from TUD's Columbia Water System to serve the individual ditch customers.	30	Yes	Yes
B	TUD-Railroad ditch conveyance project	\$348,225	3/1/00	Install a water line, pump station, storage tank, and service lines to supply treated water from TUD's Jamestown system to the ditch customers.	80	Yes	Yes
B	TUD-San Diego ditch conveyance project	\$198,700	12/22/99	Install water lines from TUD's Columbia Water System and install a storage tank to serve the individual customers.	60	Yes	Yes
D	Whitehorn Elementary School	\$114,144 28,938 \$143,082	1/12/00	Install new complete filtration	80	Yes	Yes
G	Hillview WC-Oakhurst/Sierra Lakes	25,000	10/6/00	Planning loan	2,170	Yes	Yes
D	Happy Camp C.S.D.	\$1,000,000	9/29/00	Install additional filter to reduce loading rates and water meters at service connections to control demand	1,100	Yes	Yes
E	Sonoma County Water Agency	\$9,952,386 A-1 \$5,906,603 \$15,858,989	9/28/00 10/23/02	Design and construct one additional Ranney Collector Well with 20 mgd capacity and connecting pipeline	500,000	No	No
E	City of Crescent City	\$8,000,000	9/28/00	Installation of additional transmission pipeline and storage tank	13,831	No	Yes
H	Santa Barbara Water Department	\$14,071,000	9/28/00	Study, design and construct the best alternative to eliminate open distribution reservoir	93,932	No	No
E	Donner Lake Water Company	\$100,000	9/21/00	Investigate the condition of the existing distribution system & repair or replace as needed	2,800	Yes	No

Table 4 (Continued)
1998 Grant

Priority Ranking	System Name	Amount Committed	NOAA	Project Description	Population Served	Small System	Disadvantaged Community
G	Hillview WC-Oakhurst Sierra Oaks	\$3,408,447	11/18/02	Construct new wells, raw & treated water transmission lines, treatment plant upgrades	2,170*	Yes	Yes
G	Hillview WC- Oakhurst Sierra Oaks	\$77,327	4/15/03	Planning Study	2,170*	Yes	Yes
D	City of Anaheim	\$18,062,849	7/17/00	The plant was closed down and reconstructed in order to comply with the Surface Water Filtration and Disinfection Treatment Regulations	292,900	No	No
Total 1998 Grant Commitments		\$101,506,905			4,641,379*	20	13

*Duplicate systems, so population is not added twice.

Statistical Summary of the 1998 Capitalization Grant Commitments

Number of project commitments from the 98 Capitalization grant as of 6/30/03.....	29
Total amount of project commitments from the 98 Capitalization grant as of 6/30/03.....	\$101,506,905 (115.9% of amt. to commit)
Total population served (4,641,379 less 3,700,000 million already reflected in 1997 cap grant).....	941,379
Number of disadvantaged systems.....	13
Disadvantaged water system project commitments from the Capitalization grant as of 6/30/03...	\$22,949,281 (22.6% of commitments)
Number of small water systems.....	20
Total small water system project commitments from the 98 Capitalization grant as of 6/30/03....	\$22,000,867 (21.7% of commitments)
Number of water systems receiving 0% interest rate commitments.....	11
Amount of project commitments receiving a 0% interest rate.....	\$18,590,965 (18.3% of commitments)
Number of water systems receiving forgiveness of principal.....	9
Amount of project commitments receiving forgiveness of principal.....	\$4,358,316 (4.3% of commitments)
Adjusted Commitment Loans.....	\$9,392,377
(Adjustments: \$3,408,447 Hillview WC (SWS disadv.), Hillview WC \$77,327, Sonoma CWA(large, loan only) \$5,906,603)	

Table 4 (Continued)
1999 Grant

Priority Ranking	System Name	Amount Committed	NOAA	Project Description	Population Served	Small System	Disadvantaged Community
C	San Luis Obispo WC District (Lopez Project)	300,000	4/12/01	Locate and identify a new well site; then design and construct a new well	16	Yes	No
D	Ford's Acres Mobile Home	\$187,000	6/22/01	Drill a well to change the system source to groundwater	25	Yes	No
G	Prunedale Mutual Water Association	\$275,000	5/31/01	Drill a new well and construct a transmission line. Possibly purchase land for the well site	300	Yes	No
I	East Bay MUD	\$2,188,000	5/9/01	Install an Oxygenation system to reduce TOC levels to comply with ESWTR and Stage 1 DBP Rule	1,200,000	No	No
I	Contra Costa WD	\$15,137,776	5/7/01	Plant upgrade incorporating intermediate ozone and other improvements	225,000	No	No
F	Lake Morena Resort	\$30,000	4/12/01	Drill well or consolidate with adjacent system	45	Yes	No
E	Sisykiyou CSA#5 Carrick Water System	\$540,000	4/12/01	Develop new source that is adequately separated from sewage disposal facilities	150	Yes	Yes
C	City of Crescent City Roosevelt Water System	\$400,000	2/22/01	Develop groundwater source including holding tank, new pumps, install larger mains & meters	200	Yes	Yes
I	City of Angels	\$1,521,440	1/30/01	Install an additional filter	2,844	Yes	Yes
D	Sereno Del Mar Water Company	\$250,000	1/22/01	Construct a new surface water treatment plant or new storage a groundwater supplemental source	300	Yes	No
D	Serrano Water District	\$3,621,142	1/9/01	Refinance projects started after 7/1/93	7,500	Yes	No
D	Grizzly Flats CSD	\$268,629	10/20/00	Install a second treatment unit; involves refinance	796	Yes	No
D	TUD (Big Hill)	\$1,000,000	2/27/01	Construct a new surface water treatment plant	700	Yes	Yes
D	Capell Valley Estates	\$432,000	8/29/01	System upgrade to meet requirements	250	Yes	No
D	Dutch Flat Mutual	\$115,000	9/24/01	Provide 100,000 gallon additional storage	240	Yes	No
D	Sierra Lakes CWD	\$1,312,000	7/31/01	Install additional filter capacity	2660	Yes	No
G	Del Rey CSD	\$659,225	9/20/01	Drill two new production wells	931	Yes	Yes
H	Carpenteria Valley WD	\$6,568,000 A-1 \$6,490,543 \$13,058,543	6/29/01 9/23/02	Construct new filtration treatment plant	17,000	No	No
H	Montecito Water District	\$3,743,850	8/6/01	Construct piping around existing reservoir	17,800	No	No
I	EBMUD (Comanche S. Shore)	\$4,316,210	9/13/01	Construct new plant for cap requirements	2,632	Yes	No
I	Kern County WA	\$3,955,250	9/27/01	Refurbish 6.1 MG clear water wells	22,250	No	No
I	City of San Diego	\$21,525,249	9/27/01	Alvarado Water Filtration Plant Expansion	1,223,400	No	No
Total 1999 Grant Commitments		\$74,836,314			2,725,039	16	5

Statistical Summary of the 1999 Capitalization Grant Commitments

Number of project commitments from the 99 Capitalization grant as of 6/30/03.....	22 projects
Amount of project commitments from the 99 Capitalization grant as of 6/30/03.....	\$74,836,314 (85.4% of amt. to commit)
(Note: Over obligations from 97 & 98 Cap grants reduced amount available to commit under 99 Cap grant)	
Total population served.....	2,725,039
Number of disadvantaged systems.....	5
Disadvantaged water system project commitments from the Capitalization grant as of 6/30/03....	\$4,120,665 (5.5% of commitments)
Number of small water systems.....	16
Total small water system project commitments from the 99 Capitalization grant as of 6/30/03....	\$15,227,646 (20.3% of commitments)
Number of water systems receiving 0% interest rate commitments.....	2
Amount of project commitments receiving a 0% interest rate.....	\$2,101,440 (2.8% of commitments)
Number of water systems receiving forgiveness of principal.....	4
Amount of project commitments receiving forgiveness of principal.....	\$2,019,225
Adjusted commitment loan.....	\$6,490,543
(Adjustment to Carpinteria Valley WD)	

Table 4 (Continued)
2000 Grant

Priority Ranking	System Name	Amount Committed	NOAA	Project Description	Population Served	Small System	Disadvantaged Community
D	Amador WA (Buckhorn)	\$6,473,700	6/13/02	Upgrade treatment plant or construct a new one	1,086	Yes	No
F	East Valley WD (Arroyo)	\$680,170	12/19/01	Consolidate water system into EVWD	41	Yes	No
H	City of Escondido	\$2,048,125	12/5/01	Design & construct pressurized pipe replacement	127,800	No	No
E	Farm Mutual Water Co.	\$536,900	5/24/02	Construct new reservoir	2,371	Yes	No
G	Hillcrest MHP/LACWWD	\$162,320	11/17/01	New supply and system	25	Yes	Yes
J	Ivanhoe PUD	\$2,000,000	12/19/01	Construct new well & replace distribution system	4,000	Yes	Yes
I	Kern County WA	\$1,181,620	1/28/02	Reconfigure inlet to 6.8 MG Oswell Tank	22,214	No	No
E	Lake Combie Mobile Home Village	\$74,375	12/7/01	Connect to NID's treated water line adjacent to property	65	Yes	No
H	Meadow Vista Cnty WD	\$100,000	1/18/02	Replace 2 2mg reservoirs with welded steel tanks	3,200	Yes	No
I	Metropolitan WD (Mills)	\$20,000,000	3/6/02	Design & install ozonation facilities	2,260,000	No	No
B	Paradise Ranch MHP	\$788,354	6/4/02	Redrill 4 shallow wells or provide filtration plant	211	Yes	Yes
D	Red Hill Marina Campgr	\$150,000	12/31/01	Construct a new surface water treatment plant	50	Yes	Yes
I	City of Santa Barbara	\$12,800,000 \$6,400,000	12/5/01 8/19/02	Redesign filters, chemical & sludge handling	92,826	No	No
J	Strathmore PUD	\$925,000	2/19/02	Replace old lines with new pipe	1,905	Yes	Yes
J	City of Tehema	\$225,183	5/13/02	Install automatic standby generator	438	Yes	Yes
G	Weaver Union School	\$37,000	6/12/02	Remove two extraction wells	1,400	Yes	Yes
I	Benicia, City of	\$11,000,000	7/31/02	Rehabilitate the water treatment plant	28,000	No	No
G	Biola CSD	645,800	9/4/02	Construct new well & pipeline to connect system	1,000	Yes	Yes
I	Buenaventura, City of	\$20,000,000	7/25/02	Upgrade & improve water treatment plant	101,452	No	No
H	Indian Valley CSD	\$336,375	7/30/02	Install water storage tank, water main replacement	380	Yes	Yes
D	Lake Alpine WC	\$885,237	9/4/02	Upgrade water treatment plant facilities	2,650	Yes	No
I	Santa Clara Valley WD (Santa Teresa)	\$6,350,000	9/23/02	Install wash water clarification treatment systems & filter-to-waste capability	1,000,000	No	No
D	Spanish Flat WD	\$1,137,918	9/4/02	Replace existing treatment facilities	170	Yes	Yes
D	Spanish Flat WD (Berryessa Pines)	\$660,797	9/4/02	Replace existing treatment facilities	180	Yes	No
I	Stockton East WD	\$1,070,700	8/26/02	Construct raw water storage reservoir & provide backwash treatment	250,000	No	No
Total 2000 Grant Commitments		\$96,669,574			3,901,464	17	10

Statistical Summary of the 2000 Capitalization Grant Commitments

Number of project commitments from the 00 Capitalization grant as of 6/30/03.....	25 projects
Amount of project commitments from the 00 Capitalization grant as of 6/30/03.....	\$96,669,574 (98.3% of amt. to commit)
Total population served.....	3,901,464
Number of disadvantaged systems.....	10
Disadvantaged water system project commitments from the 00 Capitalization grant as of 6/30/03.....	\$7,088,120 (7.3% of commitments)
Number of small water systems.....	17
Total small water system project commitments from the 00 Capitalization grant as of 6/30/03.....	\$15,819,129 (16.4% of commitments)
Number of water systems receiving 0% interest rate commitments.....	9
Amount of project commitments receiving a 0% interest rate.....	\$4,299,587 (4.4% of commitments)
Number of water systems receiving forgiveness of principal.....	7
Forgiveness of principal for projects from the 00 Capitalization grant as of 6/30/03.....	\$2,788,533 (2.9% of commitments)
Adjusted Commitment loan.....	\$6,400,000
(Adjustment to City of Santa Barbara (large, loan only))	

Table 4 (Continued)
2001 Grant

Priority Ranking	System Name	Amount Committed	NOAA	Project Description	Population Served	Small System	Disadvantaged Community
B	Colusa CSA #2 (Stonyford)	\$875,000	3/14/03	Install treatment and storage facilities	400	Yes	Yes
I	Contra Costa WD(Bollman)	\$6,000,000	12/04/02	Sedimentation basin improvements at WTP	200,000*	No	No
G	Kerman, City of	\$2,250,000	2/20/03	Construct storage tank and new production well; and well rehabilitation	8,945	Yes	Yes
E	Loyalton, City of	\$1,263,321	1/20/03	Construct well, modify storage tanks, add chlorination facilities	930	Yes	No
I	North Marin WD	\$12,175,000	5/13/03	Rehabilitation of SWT plant	53,000	No	No
I	San Jose Water Co.	\$2,474,000	12/17/02	Construct on-site storage & pumping station for filter-to-waste water	979,000	No	No
I	Santa Clara Valley WD (Penetencia)	\$2,100,000	4/22/03	Install wash water clarification treatment systems & filter-to-waste capability	1,000,000*	No	No
I	Santa Clara Valley WD (Rinconada)	\$4,580,000	4/22/03	Install wash water clarification treatment systems & filter-to-waste capability	1,000,000*	No	No
D	Solano I.D. (Blue Ridge Oaks)	\$856,000 A-1 \$10,000	3/3/03 6/10/03	Consolidation to City of Fairfield	82	Yes	No
D	Solano I.D. (Peabody)	\$350,000 A-1 \$36,000	3/3/03 6/10/03	Consolidation to City of Fairfield	100	Yes	No
C	Truckee Donner PUD	\$13,209,357	6/5/03	Repair or replace distribution system; connect to Truckee-Donner PUD	3,000	Yes	No
B	Vallejo, City of (Trailer City MHP)	\$400,500	12/10/02	Consolidation of MHP to City of Vallejo	100	Yes	Yes
G	Yuba City, City of	\$653,000	2/7/03	Consolidation of MHP to City of Yuba City	1,318	Yes	Yes
Total 2001 Grant Commitments		\$47,232,178			1,046,875	8	4

*Population not added here as it is counted under 2000 Cap Grant.

Statistical Summary of the 2001 Capitalization Grant Commitments

Number of project commitments from the 01 Capitalization grant as of 6/30/03.....	13 projects
Amount of project commitments from the 01 Capitalization grant as of 6/30/03.....	\$47,232,178 (52.5% of amt. to commit)
Total population served.....	1,046,875
Number of disadvantaged systems.....	4
Disadvantaged water system project commitments from the 01 Cap. grant as of 6/30/03.....	\$4,178,500 (8.8% of commitments)
Number of small water systems.....	5
Total small water system project commitments from the 01 Cap. grant as of 6/30/03.....	\$19,903,178 (42% of commitments)
Number of water systems receiving 0% interest rate commitments.....	4
Amount of project commitments receiving a 0% interest rate.....	\$3,258,100 (6.9% of commitments)
Number of water systems receiving forgiveness of principal.....	2
Amount of project commitments receiving forgiveness of principal.....	\$920,400 (1.9% of commitments)

TABLE 4 STATISTICAL SUMMARY OF COMMITMENTS FROM ALL CAPITALIZATION GRANTS

Statistical Summary of all Project Commitments from the 1997-2001 Capitalization Grants as of June 30, 2003	
Total Number of Project Commitments (Notice of Application Acceptance)	114
Cumulative Project Commitments excluding adjustments.....\$391,839,489	
Amendments to the 97, 98, 99, 00, & 01 Commitments..... <u>23,959,618</u>	
(’97 \$1,676,698 + ’98 \$9,392,377 + ’99 \$6,490,543 + ’00 \$6,400,000)	
Total Project Commitments including adjustments \$415,799,107	\$415,799,107
Cumulative project commitments are at 94.1% (\$415,799,107/\$442,035,670)	94.1% committed
Total Population Served	12,510,374
Cumulative Commitments to Disadvantaged Systems: \$74,770,619/\$415,799,107 = 18%	40 for \$74,770,619
Cumulative Commitments to Small Water Systems: \$92,275,346/\$415,799,107 = 22.2%	75 for \$92,275,346
Cumulative Commitments for a 0% Interest Rate: \$62,056,145/\$415,799,107 = 14.9%	33 for \$62,056,145
Cumulative Commitments for Forgiveness of Principal: \$12,714,474/\$415,799,107 = 3.1	26 for \$12,714,474

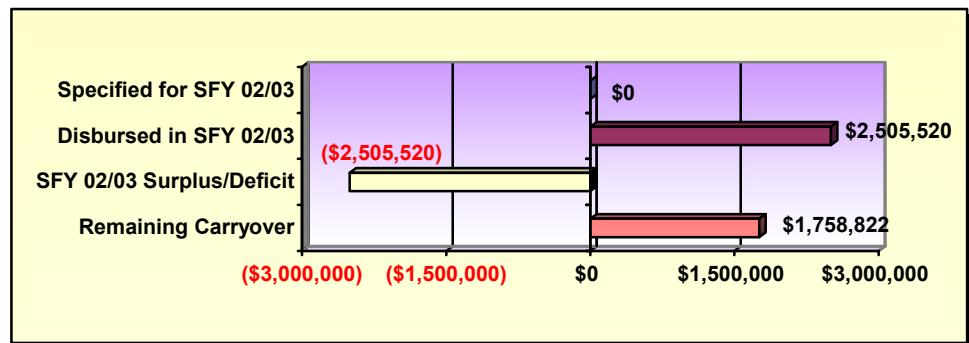
Set Aside Activity Status

The following pages provide an overview of DHS' set aside activities for the year ending June 30, 2003. Appendix B includes management reports from Accounting detailing expenditures for the set asides.

A. Set Aside: Administration

DHS has set aside the entire 4 percent of the 1997, 1998, 1999, and 2001 Capitalization Grants (\$12,717,900) for the administration costs of this complex program. DHS banked the 4% administration set aside from the 2000

Capitalization Grant (\$3,359,724) and reserves the right to earmark these funds for future use. No grant was received during SFY 2002/03, which is why \$0 is specified for SFY 02/03 in the graph. Unused carry-over funds available from prior years were used to fund 2002/03 administration costs. Excess funds still available at the end of SFY 2002/03 (\$1,758,822) will be retained for use in future years to ensure the availability of sufficient funds to administer the program in perpetuity. The state is not currently charging fees to supplement available set aside funds.



The majority of funds from this set aside paid salaries and associated expenses of personnel administering the SDWSRF program. Actual expenditures for the Administration set aside account (Fund 625) totaled \$2,505,520. Year-end-encumbrances total \$310,010. The encumbrances represent amounts obligated for contracts (but not yet billed) entered into during the period, such as with the Department of Water Resources. The contract with the Department of Water Resources is to assist DHS in managing the financial aspects of executing SDWSRF loans, and the contract with the California Department of Finance Audits Office is to ensure the SDWSRF Program complies with federal laws and regulations applicable to the federal Capitalization Grants. The following administrative activities have been completed.

☐ Hiring/training of staff

As of June 30, 2003, a total of 20 administrative positions were authorized, which equate to 19.5 FTE positions. Staff attends periodic SDWSRF training workshops to stay current on policies & procedures.

☐ Purchase of computer hardware and software

Initial purchases were completed in the first year's grant. Eleven new computers were purchased during this reporting period to replace obsolete ones.

☐ Development of program documents

Extensive program documents have been developed for all set aside programs. Many of these documents can be found and are available for downloading at the SDWSRF website address located at <http://www.dhs.ca.gov/ps/ddwem/srf/srfindex.htm>. Documents specific to administration include:

- Policy & Procedures Manual
- Project Priority List
- Intended Use Plan
- Environmental Review
- Pre-application Package
- MBE/WBE Compliance Documents
- SDWSRF Regulations
- Full Application Package

☐ Changes in program procedures

1. Administration Unit – Better monitoring procedures have been implemented for tracking loan claims and contractor invoices.
2. Technical Support Unit – SDWSRF program staff and DWR meet monthly to discuss project status. These meetings enhance the progress of project application review and funding commitments.
3. Environmental Review Unit – No major changes were made with regards to the environmental review process; however, the process has been refined and given more detail as follows:
 - Environmental Database enhancements were added for tracking projects. The Environmental Review of CEQA Exemption, the Statement of Environmental Findings, and the Summary of Environmental Consideration have been revised and streamlined.

4. Fiscal Unit – No changes were made.
5. Small Water System Unit – There has been a change. In the previous fiscal year, DHS had developed most of the policies, procedures and forms that were used in the program. This year, the changes have been maintaining and modifying those procedures to maximize the efficiency of the program, i.e., continue to upgrade and improve TMF forms and evaluation tools, and expanding the TA/TMF training and assistance available. DHS has developed an assistance referral list that is updated and distributed to the third party assistance providers quarterly.

☐ Solicitation of Applications (Preapplications)

During SFY 2002/03, the tenth round of invitations was sent out. Invitees included all projects in categories B through D (there were no projects in category A) and those in E with 40 or more bonus points. A total of 265 application invitations were sent to 209 water systems in May of 2003. These invitations resulted in 50 systems submitting positive statements of interest and these systems were then sent complete application information.

☐ Update of comprehensive list of projects (PPL)

The PPL is updated on an annual basis. The PPL for SFY 2002/03 was comprised of approximately 3,700 projects that were submitted by approximately 1560 water systems. Application invitations were sent to 209 water systems in May of 2003. Fifty (50) systems responded positively to a Statement of Interest and were sent complete application information. A separate PPL was established with 65 project preapplications that relate to source water protection projects. Of those, 31 systems were invited of which 3 responded positively and were sent complete application information.

The annual open preapplication period for SFY 2002/03 was announced to all PWSs in the state in June 2002. During the submission period, which closed in September of 2002, approximately 200 preapplications were received for SDWSRF projects. These were ranked by field offices and incorporated into the PPL presented for public hearing in January 2003. Information concerning the open preapplication period, including the preapplication form and related material, was also posted on the SDWSRF Internet web site to increase the availability of this information.

The Data Systems Support Unit (DSSU) continues development of the comprehensive data management system to meet the SDWSRF and related long-term data tracking needs. The preliminary project related elements of the database, still under development, known as the Management, Accounting, and Reporting Systems (MARS), have been deployed to all Drinking Water Program offices. In consultation with the SDWSRF staff, financial information components are under development. The DSSU will establish and implement a management reporting process to improve SDWSRF project tracking, facilitate program oversight, and support management of the fund corpus.

❑ Public Participation

Each year, SDWSRF representatives participate in a series of multi-agency funding fairs held throughout the state. These forums provide information on a variety of funding programs for infrastructure improvements. Other participants include the U.S. Department of Agriculture-Rural Utilities Service, the State Water Resources Control Board, the California Department of Housing and Urban Development, the Infrastructure and Economic Development Bank (part of the California Department of Commerce), and the Department of Water Resources. These meetings draw a wide variety of representatives seeking information for funding public projects. The California Finance Coordinating Committee organizes these workshops annually to make information available regionally concerning resources for financing infrastructure projects.

DHS representatives also have opportunities to receive input from the stakeholders when making presentations and participating on professional committees at meetings of groups, such as the Groundwater Resources Association, the California Environmental Health Association, the Association of California Water Agencies, the Small Water Systems Interagency Outreach Committee, the California Conference of Directors of Environmental health and the CALFED Bay-Delta project.

❑ Evaluation of PWSs for technical, financial, and managerial capacity (TMF).

USEPA granted approval of DHS' TMF Capacity Development work plan on July 1, 1999 and approval of its Capacity Development Strategy on September 8, 2000.

For the time period from July 1, 2002 to June 30, 2003 there were a total of 528 water supply permit actions by DHS and LPAs reported in the DHS data tracking system. This includes amended permits, full permits, and other permit actions. The majority of these permit actions did not trigger an evaluation of the TMF Capacity of the water system, which is limited to new systems, systems changing ownership, and SRF projects pursuant to the California Health and Safety Code Section 116540 (a).

There were seventy-two (72) TMF Capacity Assessment forms reviewed. Twenty-one (21) were for TMF evaluations for SDWSRF Projects, and twenty-three (23) were for new water systems (four (4) Community Water Systems and nineteen (19) Non-Transient Non-Community Water Systems).

- For all of the seventy-two (72) TMF Assessments reviewed, the mandatory TMF elements were completed prior to issuance of a permit for new systems or Notice of Application Acceptance (NOAA) for SRF projects.
- For SRF projects, the necessary TMF elements were addressed in the NOAA as contract conditions or if the permit modification was needed, as Water Supply Permit conditions.
- For the new systems, the necessary TMF elements were generally addressed as conditions in the Water Supply Permit. The use of permit conditions makes these necessary items reportable via enforceable requirements and timelines. However, several systems completed all elements up front.

The level of documentation and detail provided in the TMF assessment becomes greater as the size and complexity of the water system increases. The smaller and less complex water systems require less documentation and detail in the TMF assessment. A review by DHS Headquarters of the TMF Assessments of SRF projects indicates that the procedures established in the SDWSRF Policy and Procedures Manual and TMF Staff Guidance are substantially being followed. DHS Staff is applying the TMF Criteria in a consistent manner throughout the state based on the system size and complexity.

For new systems, all twenty-three (23) filled out the TMF Assessment Forms. The necessary items from the TMF Assessment were addressed as permit conditions.

☐ Development of the IUP

DHS prepared an IUP for the FFY 2002 Capitalization Grant. The IUP set forth DHS' goals and priorities. A PPL was established that ranked PWSs into categories based on public health issues, compliance with the SDWA, and per household affordability. The PPL is a component of the IUP. Projects that rank high on the PPL are the first to be offered loans based on available funding.

☐ Conduct public hearings for PPLs and IUPs

In January 1993 a notice was sent to all public water systems in California and other interested parties announcing the availability of the draft IUP and the 2003 PPLs (SDWSRF and SWP); a public hearing was held March 3, 2003. The notice and related documents were also posted through the Department's Internet website to maximize public availability.

☐ Meeting of stakeholder committees

The SDWSRF program has stakeholder committees in each of the set aside programs. The SRF Interest Group is comprised of water utility associations, PWSs, nonprofit groups, water utility consultants, funding agencies and others. The Small Systems Interagency Outreach Committee is a stakeholder group that assists with input and coordination of training.

☐ Preparation of capitalization grant application

The 2002 federal Capitalization Grant was prepared by DHS staff and submitted to USEPA in February 2003. The grant was awarded effective July 2003, which is not part of this reporting period.

☐ Development of Accounting Management Reports

Appendix B details the accounting management reports that are used to track expenses to the SDWSRF Program.

☐ Completion of SDWSRF program audits

The California Department of Finance, Office of State Audits and Evaluations, conducted the required annual audit of the SDWSRF program. The audit began in October 2003 and was completed in November 2003. It covered the operations of the SDWSRF program for SFY 2002/03. An unqualified opinion was issued, as has been the case for all prior audits. The audit report stated “In our opinion, the financial statements present fairly, in all material respects, the financial position of the California Department of Health Services Safe Drinking Water State Revolving Fund as of June 30, 2003, and the changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.” A report was also issued on compliance and on internal control over financial reporting based on an audit of financial statements performed in accordance with Governmental Auditing Standards. The report, dated November 19, 2003 says, “We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.” Finally, the auditors issued a report on compliance with OMB Circular A-133. The report, dated November 19, 2003 says, “We noted no matters involving internal control over compliance and its operation that we consider to be material weaknesses.” No audit findings were noted in the audit report: See Appendix D for a copy of the audit report.

☐ Regulations

The authority to implement regulations was based on enabling legislation for the SDWSRF program. This was accomplished with the passage of Senate Bill 1307 (Chapter 734-Statutes of 1997) signed by the Governor on October 6, 1997. Emergency regulations were adopted on March 23, 1999 and became final on August 18, 1999.

In June of 2000 the draft regulations to amend the SDWSRF Program to specifically address the administration of the Source Water Protection Loan Program and consolidation issues were submitted to the Office of Regulations. The public comment period on the Source Water Protection Projects/Consolidation regulations began June 29, 2001; it was concluded on August 13, 2001. These regulations were filed with the Secretary of State’s Office on August 6, 2002 and became law on September 5, 2002.

The regulations to support implementation of the Source Water Protection Loan Program were expanded to include a number of changes to facilitate funding projects to consolidate two or more water systems.

Posting to the Department’s Internet web site was the primary mechanism for circulation of the proposed regulations before they were finalized. These regulations establish the regulatory procedure for issuance of Source Water Protection Project loans, and remove impediments to funding consolidation projects.

The following is a listing of how the newly adopted SDWSRF regulations will be applied.

1. The regulations in effect prior to September 5, 2002 will apply to those applications submitted and deemed complete as of September 4, 2002.
2. All applications received and deemed complete by the District after September 4, 2002, will be subject to the Amended Regulations that took effect September 5, 2002.
3. For all applications deemed complete after September 4, 2002, Crosscutting Authorities **will** apply if the **amount requested** from the SRF program exceeds \$500,000 and/or if the applicant has more than 1,000 service connections.

☐ Delegation authority for Compliance with federal regulations and authorities

Federal Endangered Species Act: July 2, 1999 Letter from U.S. Environmental Protection Agency to U.S. Fish and Wildlife Service Designating them (U.S. Fish and Wildlife Service) as Non-Federal Representative for Compliance with Section 7 of the Act.

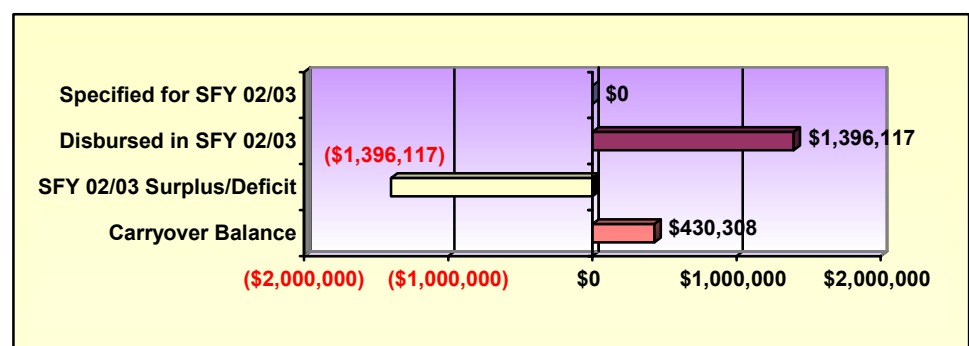
National Historic Preservation Act: March 1990 "Programmatic Agreement on Historic Preservation for the State Revolving Fund" stipulating the responsibilities of USEPA and State Revolving Fund agencies (including DHS).

☐ Environmental review process

During SFY 2002/03, the Environmental Review Unit continued to refine procedures for documenting the environmental review process and incorporating environmental findings and conditions into the process of SDWSRF project approvals. Specific memo and report formats were developed to enhance communication between the ERU and other units in SDWSRF program. Specific environmental information requirements were established for determining the completeness of SDWSRF applications. The "NEPA-like" requirements for consultation with federal authorities have been refined and documented by using detailed checklists. The unit has also prepared a desk manual and flowchart to document its environmental review process. The Unit still maintains its own environmental review database, which has been updated and improved to reflect changes in the process and increase the types of reports that can be generated.

B. Set Aside: State Program Management - Capacity Development

Capacity Development is related to the increasing of the ability of a system to meet the operational and regulatory requirements to maintain a public



water system in continued compliance with the SDWA. DHS has cumulatively set aside \$2,635,858 from the 1997, 1998, 1999, and 2001 federal Assistance Awards. No grant was received during SFY 2002/03, which is why \$0 is specified for SFY 02/03 in the graph. Unused carry-over funds available from prior years were used to fund 2002/03 capacity development costs. Excess funds still available at the end of SFY 2002/03 (\$430,308) will be retained for use the following year.

Capacity Development Strategy is a method to identify PWSs most in need of TMF improvement, and it provides a systematic framework to review factors that encourage or impair capacity development and incorporates a plan to improve SWS compliance with the SDWA.

The federal guidance requires a state to describe how it will assist PWSs to meet primary drinking water regulations, and how it will encourage partnerships and assist in the training and certification of operators. A state must establish a baseline to measure improvements and identify persons interested in implementing the capacity development strategy.

Actual expenditures for the Capacity Development set aside (Fund 626) for SFY 2002/03 total \$1,396,117. Year-end encumbrances total \$509,541. The encumbrances represent amounts obligated but not yet billed. This amount represents contracts with Sacramento State University, California Rural Water Association and Rural Community Assistance Corporation.

The contract with Rural Community Assistance Corporation (RCAC) is to provide technical assistance to small water systems by developing and providing free training workshops on Technical, Managerial and Financial (TMF) capacity. The workshop materials were developed with input from DHS staff and the workshop schedule was coordinated with other training organizations in the industry. However, due to unexpected delays in the State contract approval procedure, there was approximately a 7-month interruption in this contract. This delayed the resumption of workshops until June 2003 resulting in only five training workshops being conducted in SFY 2002/03. Ninety (90) individuals representing sixty (60) water systems attended the five training workshops.

Additionally, RCAC provides direct technical assistance to water systems as a follow-up to their training workshops, and conducts median household income (MHI) surveys for the purpose of determining “disadvantaged community” status for the SRF loan application process. There was one (1) water system that received their direct assistance, and two (2) MHI surveys that were conducted during SFY 2002/03.

In November 2001 DHS entered into a three-year contract with California State University, Sacramento (CSUS). For the second year of the contract, July 1, 2002 to June 30, 2003, the amount was \$238,145. The purpose of this contract is to develop continuing education materials for operators of both water treatment and water distribution systems. Under this contract, there will be self-study courses, on-line courses, and seven videos developed. To date, CSUS has completed six videos and one on-line course.

For the California Rural Water Association (CRWA) contract, the funds were split between the State Proposition 13 funds and the Technical Assistance set aside. The summary of the work

done under this contract is located in the Technical Assistance section of this report.

☐ Overview and Workplan

DHS has developed, and is now implementing, a strategy to assist PWSs in acquiring and maintaining technical, managerial, and financial (TMF) capacity. DHS has (1) defined program goals and objectives, (2) defined a set of steps to be taken to achieve each objective, (3) defined an overall program implementation plan, and (4) defined a program evaluation and improvement plan which describes how the state will establish a baseline and measure improvement in capacity. DHS will continue to solicit input from the State's technical advisory committee, and other interested stakeholders.

Funds were used for (1) implementation of a capacity development strategy, (2) developing policies and procedures for implementing capacity requirements, and (3) continuing to develop a capacity development data base system to track the results of the strategy and its implementation.

☐ Program Documents

The TMF Capacity Development Program has developed and continues to revise the following program documents used to guide staff towards consistent implementation of the program:

Documents for Community Water Systems

Assessment Forms:

- ☐ TMF Assessment Form for Community Water System for SDWSRF Applicants (Rev. 6/24/2002)
- ☐ TMF Assessment Form for New Community Water Systems (Rev. 6/25/2002)
- ☐ TMF Assessment Form for Change of Ownership for Community Water Systems (Rev. 12/10/03)

Staff Evaluation Forms:

- ☐ Staff TMF Evaluation Form for SDWSRF Community Water System (Rev. 5/2/2001)
- ☐ Staff TMF Evaluation Form for New Community Water Systems (Rev. 4/17/2001)
- ☐ Staff TMF Evaluation Form for Change of Ownership of Community Water Systems (Rev. 12/10/03)

Checklists:

- ☐ SDWSRF Community Water System Checklist (Rev. 5/2002)
- ☐ New Community Water System Checklist (Rev. 5/2001)
- ☐ Change of Ownership Community Water System Checklist (Rev. 5/2001)

Criteria:

- ❑ TMF Capacity Criteria for SDWSRF Community Water Systems (Rev. 7/9/2002)
- ❑ TMF Capacity Criteria for New Community Water Systems (Rev. 8/26/2002)
- ❑ TMF Capacity Criteria for Change of Ownership of Community Water Systems (Rev. 8/26/2002)

Documents for Non-Community Water Systems

Assessment Forms:

- ❑ TMF Assessment Form for Noncommunity Water System for SDWSRF Applicants (Rev. 11/19/03)
- ❑ TMF Assessment Form for New Noncommunity Water Systems (Rev. 4/18/03)
- ❑ TMF Assessment Form for Change of Ownership for Noncommunity Water Systems (Rev. 11/18/03)
- ❑ TMF Assessment Evaluation Form for Change of Ownership for Transient Noncommunity Water System – EZ Form (Rev. 4/13/03)

Staff Evaluation Forms:

- ❑ Staff TMF Evaluation Form for SDWSRF Noncommunity Water System (Rev. 5/3/2001)
- ❑ Staff TMF Evaluation Form for New Noncommunity Water Systems (Rev. 4/30/03)
- ❑ Staff TMF Evaluation Form for Change of Ownership of Noncommunity Water Systems (Rev. 5/2/2001)

Checklists:

- ❑ SDWSRF Noncommunity Water System Checklist (Rev. 5/2002)
- ❑ New Noncommunity Water System Checklist (Rev. 5/2001)
- ❑ Change of Ownership Noncommunity Water System Checklist (Rev. 5/2001)

Criteria:

- ❑ TMF Capacity Criteria for SDWSRF Noncommunity Water Systems (Rev. 7/9/2002)
- ❑ TMF Capacity Criteria for New Noncommunity Water Systems (Rev. 8/26/2002)
- ❑ TMF Capacity Criteria for Change of Ownership of Noncommunity Water Systems (Rev. 4/18/03)

These documents are available on the DHS Internet website at:
www.dhs.ca.gov/ps/ddwem/technical/dwp/tmf/TMF_Index.htm.

❑ DHS Capacity Development Tools

DHS has been actively developing tools and templates for use by SWS in improving their capacity. The following technical assistance documents are available:

- ❑ Operations Plan
 - Customer Complaint Form
 - Detailed Procedures
 - Monthly Summary of Monitoring for Surface Water
 - Monthly Equipment Monitoring Sheet
 - Operations Personnel for Water System
 - Operations Plan for a Small Groundwater System
 - Operations Plan for a Small Groundwater System with Chlorinator
 - Operations Plan for a Small Groundwater and Surface Water System
 - Routine Operational Procedures for Water Systems
 - Slow Sand Filter Operation Plan
 - Storage Tank Inspection Sheets
 - Summary of Water System Monitoring and Complaints
 - System Component Inventory
 - Water Production and Run Time Monitoring Sheet
 - Water System Procedures
- ❑ Typical Equipment Life Expectancy
- ❑ Emergency Disaster Response Plan
- ❑ 5-Year Budget Projection Expense Only
- ❑ 5-Year Budget for Community Systems

These technical assistance documents are available on the DHS Internet website at:
www.dhs.ca.gov/ps/ddwem/technical/dwp/tmf/TMF_Index.htm.

☐ Program Procedures

DHS has developed a set of performance criteria to determine whether a system has adequate TMF capacity. DHS has and intends to continue to make needed improvements to its TMF forms as needed to improve their effectiveness.

DHS continues to refine the policies and procedures for implementing its capacity development strategy. DHS has developed TMF capacity self-assessment forms and staff evaluation forms to be used to document and evaluate a water system's TMF capacity. In reviewing TMF Assessments that have been submitted for changes of ownership and SRF projects, in looking at the circumstances that lead to the system deficiencies, and as an outgrowth of the training workshops, DHS has identified specific capacity development areas that need additional emphasis. In particular, DHS is placing an emphasis on financial capacity and assisting systems with budget preparation and rate setting.

All sections of the permit manual that pertain to the issuance of permits for new PWSs were revised in December 2002. The permit is the critical control point in prevention of the creation of any new non-viable PWSs. The DHS Permit Policy and Procedures Manual and the TMF Capacity Training Manual dated September 1998 contain a description of the program procedures to be followed by District and LPA staff in addressing mandatory TMF requirements (permitting of new systems and SDWSRF Projects).

DHS will develop appropriate data tracking tools to monitor and assess program activities. DHS is currently tracking candidates for technical assistance by use of an Assistance Referral List database and is nearing completion of a database to track the assistance and training that has been provided to water systems.

☐ Performance Status Report

USEPA approved DHS' 2002/03 TMF capacity development workplan on June 28, 2002.

The staff of DHS focused efforts on the following areas related to these set aside programs:

- The continued implementation and review of the State of California's TMF Capacity Criteria.

Effective January 1, 1998, State of California Law required that TMF Capacity requirements be met by all new PWSs as well as water systems which are undergoing a change of ownership.

☐ Technical Assistance Steering Committee

DHS continues the process of evaluating and refining its TMF Capacity Development Strategy. The Technical Assistance Steering Committee, which consists of staff of DHS and third-party contractors, was used in this process.

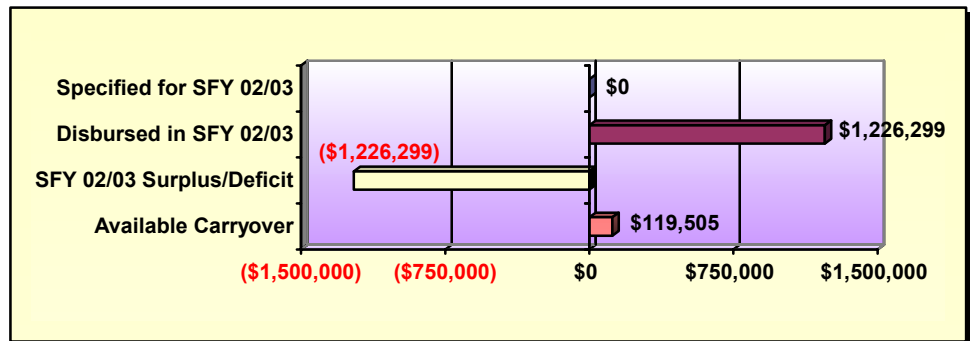
C. Set Aside: Small Systems Technical Assistance

❑ Overview and Workplan

The majority of California's 7,847 public water systems fall into the SWS category (7,170 small water systems). DHS has set aside the entire 2% of the 1997, 1998, 1999, and 2001

Capitalization Grants

(\$4,913,543) for the costs of this program. DHS banked the 2% Small Water System Technical Assistance set aside from the 2000 Capitalization Grant (2% = \$1,679,862) and reserves the right to earmark these funds for future use. No grant was received during SFY 2002/03, which is why \$0 is specified for SFY 02/03 in the graph. Unused carry-over funds available from prior years were used to fund 2002/03 expenses for this set aside. Excess funds remaining at the end of SFY 2002/03 (\$119,505) will be applied towards next year's expenditures.



These funds are used to provide additional in-house technical assistance staff and to contract with outside contractors to provide direct technical assistance services to small systems. The primary goals of the small system technical assistance program are: (1) reducing the instances of noncompliance with drinking water standards and requirements; (2) establishing and assuring safe and dependable water supplies; (3) improving the operational capability of the small water systems; and (4) establishing or improving the technical, managerial and financial capability of the small water systems. This program is directed at those systems serving a population of 10,000 or less, with much of the emphasis given to community water systems serving less than 200 service connections.

DHS is implementing the State's overall small water system technical assistance program. DHS has developed procedures for providing technical assistance to small water systems through use of DHS staff, LPA staff and third party contractors. As a part of this process, DHS developed a staff technical assistance manual that includes procedures for providing technical assistance, descriptions of available third party assistance, and guidance document handouts.

Funds were used to (1) continue the development of the state's overall small water system technical assistance program and (2) provide direct assistance to small water systems to enable them to qualify for and obtain SDWSRF funding. This assistance includes:

- Assistance in preparation of the SDWSRF application, including submittal of required environmental documentation, preliminary engineering report(s), and compliance with federal crosscutting authorities.

- Assistance in demonstrating required TMF capacity, including submittal of required capacity documentation and development of source capacity assessments, technical evaluations, operations plans, emergency plans and budget projections.
- Assistance in completing Median Household Income Surveys to qualify for disadvantaged community status for funding SDWSRF projects (0% interest or forgiveness of loan principal).

The previous contract with the California Rural Water Association (CRWA) was continued and the amount of the contract was increased to \$474,000. The contract continues to assist DHS with technical assistance to small public water systems that are pursuing SDWSRF funding or have been identified by DHS as having significant problems, which the water system may more readily resolve with third party support. In the second year of the contract with CRWA, the amount of the contract increased to \$485,865. In the first year of the contract, CRWA added one additional circuit-rider to bring the total to five. CRWA works with DHS staff to provide direct technical assistance to small public water systems which are pursuing funding through the SDWSRF, and systems identified as having significant problems complying with the minimum water supply requirements or having other significant program problems as determined by DHS. The CRWA circuit riders worked directly with the water systems and DHS District Offices. During the period between July 1, 2002 and June 30, 2003, CRWA assisted 113 water systems.

☐ Program Documents and Procedures

DHS has completed the staff guidance and implementation documents for this program and distributed them in the Policy and Procedures Manual “A Staff Guide to Implementation of the Safe Drinking Water State Revolving Fund Program” (Rev. 4/24/01). These documents define the role of DHS and LPA staff as well as third-party contractors. The Capacity Development Strategy dated September 2000 describes how the Technical Assistance Program fits into the TMF Capacity Development Program. Currently, targeted technical assistance is provided by DHS staff and third party contractors to systems that may be pursuing SDWSRF funding.

☐ Performance Status Report

During this time period, DHS focused on developing a program designed to use both DHS staff and third-party Contractors to provide effective technical assistance to SWSs utilizing the SDWSRF set aside funds. Effort was focused on the following areas during this period:

- Continued work of the Technical Assistance Steering Committee, which consists of staff of DHS and third-party contractors. The primary focus of this Steering Committee has been to implement the Capacity Development Strategy. However, related to this, the Steering Committee also worked on evaluating and prioritizing technical assistance needs for both capacity development and general compliance issues.
- Implementation of the Capacity Development Strategy as a basis for evaluating and prioritizing technical assistance needs for SWSs.

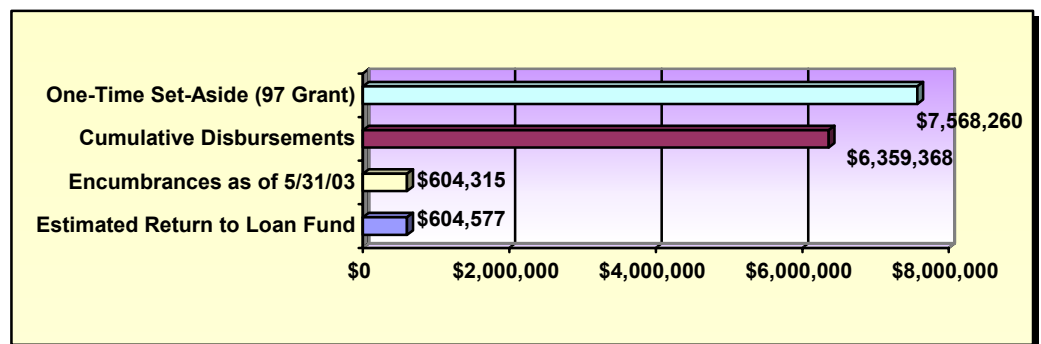
- Identifying and evaluating available Technical Assistance resources. The Steering Committee developed lists of available resources and the possible roles of these resources in the Technical Assistance Program.
- RCAC has compiled and categorized (sorted by TMF elements) a list of available resources on a compact disc (CD). They have also developed, with input from DHS, the training materials used at the training workshops, and have produced this information on CD's for water systems to use as reference after each workshop.

D. Set Aside: Local Assistance - Source Water Assessment Program (SWAP)

☐ Overview

The funding for this program was used to develop and implement a Source Water Assessment and Protection (SWAP) program to delineate the boundaries of protection areas for

drinking water sources, and identify possible contaminating activities within the delineated areas in order to assess the vulnerability of the water sources to contamination. In California, the SWAP is incorporated into the DWSAP (Drinking Water Source Assessment and Protection) Program. USEPA endorsed the Department's DWSAP Program on April 26, 1999 and formal approval was given on November 5, 1999.



Actual expenditures for the SWAP set aside account (Fund 627) total \$2,350,694 for the past fiscal year and cumulatively amount to \$6,359,368.14 out of an available amount of \$7,568,260. Outstanding encumbrances total \$604,315. The estimated remaining SWAP set aside funds of \$604,577 that could not be spent by the May 31, 2003 deadline will be returned to the Drinking Water SRF infrastructure account via an amendment to the 1997 federal Assistance Award.

Federal rules required that the funds from this set aside be spent by May 31, 2003. As of this date, the assessment portion of the DWSAP program is essentially complete. Over 93% of the more than 15,000 public drinking water sources were assessed. DHS staff conducted more than 6,000 assessments (42% of the total), LPAs completed more than 5,500 assessments (38%), and public water systems voluntarily completed assessments for more than 3,000 sources (20%). This was accomplished at less than \$325 per source for DHS and LPAs, and no funds were provided to water systems. DHS staff and others will complete the remaining assessments as time permits.

Contracts began in June 1999 with 33 LPAs for drinking water source assessments for active public drinking water sources used by public water systems under the regulatory jurisdiction of

the LPA. The contracts terminated on December 31, 2002 and total \$1,953,900. LPA DWSAP expenses in SFY 2002/03 were \$2,350,694 and outstanding encumbrances were \$604,315.

In addition to the source water assessments, the Department and LPA staff also obtained accurate coordinates for 89% of drinking water sources and 61% of treatment plants using GPS technology and other methods in order to fulfill other EPA data requirements. This activity has added to the DWSAP project workload.

The Department contracted with UC Davis-Information Center for the Environment (UCD-ICE) to develop geographic information system applications and decision support system tools in order to assist in identifying different source water threats. The first agreement with UCD-ICE was executed in August 1999 and was amended in April 2001. This agreement terminated on June 30, 2002, and total contract expenses paid were \$651,632.30. A new agreement with UCD-ICE was executed for the period July 1, 2002 to June 30, 2005. The expenses for the first 11 months of this agreement (through May 31, 2003) were charged to the SWAP set aside. Expenses paid in SFY 2002/03 were \$153,287.32.

The Department has made the data tools developed by UCD-ICE available to public water systems and others interested in doing source water assessments. As of May 31, 2003, the Department distributed the "TurboSWAP" program to 163 entities representing over 500 water systems with more than 3,000 sources.

In addition to the source water assessments, another element of the DWSAP program is the administration of low interest loans for source water protection (SWP). The loans are available to non-profit public water systems. The SWP loan account is funded through a set aside of the SDWSRF loan fund and is structured as a sub account of the fund. Regulations were adopted in September 2002 that give the Department the authority to enter into contracts for SWP loans. The first loan contract was authorized in May 2003.

☐ Work Plan

USEPA approved a revised work plan for SWAP on June 28, 2002, and approved an amendment on May 6, 2003. The amendment authorized the Department to reallocate funds from personnel expenses to equipment. This change allowed the Department to replace GPS units and printers that were initially purchased under the SWAP set aside. The new units and printers will allow the Department to continue to assess and locate new sources.

The Department is pleased to report that the source water assessments are essentially complete. Table 5 illustrates the progress by the Department in the previous and earlier fiscal years.

Table 5
DWSAP Assessment Progress

Fiscal Year	1/1/00 to 6/30/00	7/1/00 to 6/30/01	7/1/01 to 6/30/02	7/1/02 to 5/31/03	Total Completed	Total # Sources ¹
# Sources	122	681	4,737	8,627	14,156	15,331
% of Total	<1%	4%	31%	56%	93%	100%
Cumulative	122	792	5,529	14,156		

1. Total number of sources was recently revised based on revisions to the Department database.

Workplan Tasks for State Fiscal Year 2002/03

During SFY 2002/03, the following activities identified in the Work Plan have been undertaken or completed:

Assessment Implementation

1. Completed contracts with 33 LPAs for DWSAP assessments.
2. With the assistance of UCD-ICE, improved electronic tools for source water assessments: electronic forms ("TurboSWAP"), GPS data dictionary software, and a mapping tool.
3. With the Groundwater Resources Association (GRA) and the UC Davis Department of Land, Air and Water Resources, put on one two-day training session on Drinking Water Source Assessment and Protection.
4. Provided program updates, guidance, and instructions to staff through materials posted on the Department and UCD-ICE web sites.
5. Continued data collection for source water assessments.
6. Acquired hardware for Department (computers, network servers, GPS units, and color printers) for use with electronic tools.
7. Enhanced data collection system to keep track of assessments.
8. Met with California Rural Water Association to share information and update on progress.
9. Participated in assessments for large water sources including the State Water Project and the Colorado River.

Public Participation

1. Updated the Department's website for the program with useful information and posted a weekly update of water systems with completed assessments.

Reporting

1. Prepared regular updates on program for management and staff.
2. Prepared annual and other reports as needed for USEPA.

❑ Performance Status Report

The Department accomplished the following for the California DWSAP Program in 2002/03:

Assessment Implementation

1. Completed contracts with 33 LPAs.
2. Data work done by UC Davis:
 - a. Released upgrades of TurboSWAP software application
 - b. Released upgrades of Mapping Tool GIS application
 - c. Processed GPS and TurboSWAP data
3. Distributed one issue of an update (bulletin) for staff with timely tips, hints, reminders and guidance.
4. Developed guidance for completing assessments and posted guidance and forms on Department's website.
5. Completed assessments for 8,627 sources, as detailed in Table 6.

Table 6
DWSAP Assessments By System Type Completed SFY 2002/03

System Type	# Source Assessments Completed
Community Water Systems	5,601
Non-Transient NonCommunity Water Systems	979
Transient NonCommunity Water Systems	2,047
Total	8,627

Public Participation

1. Updated the Department's website for the program with useful information and posted a weekly update of water systems with completed assessments.

Reporting

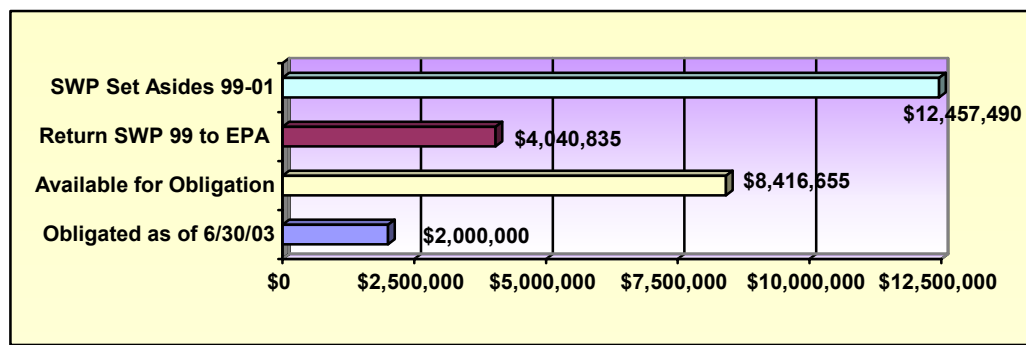
1. Submitted required reports to USEPA for progress on the program.

E. Set-Aside: Local Assistance – Land Acquisition for Source Water Protection

☐ Overview

Funding for this program provides loans to PWSs for the purchase of land or conservation easements. A PWS may only purchase land or a conservation easement from a willing party. The purchase must be for the purposes of protecting the system's source water and ensuring compliance with national drinking water regulations. DHS evaluates all projects using the priority system described in DHS' IUP.

As part of the overall SWAP strategy, low interest SWP loans are available to PWSs for source water protection needs. The Department intends to use an \$8,416,655



(\$4,199,655 FFY 2000 Grant & \$4,217,000 FFY 2001 Grant) set aside towards funding projects on the SWP priority list. The SWP loans will be treated as a sub-account within the SDWSRF loan fund. This funding is part of the SDWSRF loan fund and will be tracked separately by its own cost accounting center. This amount reduces the funding available to the SDWSRF infrastructure improvement projects accordingly. SWP funding set aside from the 1999 Capitalization Grant in the amount of \$4,040,835 will need to be returned to the loan fund since it was not obligated by September 30, 2002. This will be done through an amendment to the Assistance Award.

In February 2003 the first SWP project was obligated. The Contra Costa Water District undertook a project to divert contact recreational water activities from their raw water reservoir. The loan contract was finalized in July 2003.

The following actions were taken during SFY 2002/03:

Source Water Protection Loan Program

1. Adopted state regulations for a source water protection loan program.
2. Updated the project priority list.
3. Invited 30 public water system projects to submit full applications.
4. Authorized first SWP loan contract to Contra Costa County Water District for \$2,000,000. The district used the funds to separate the body contact recreation from their drinking water reservoir.

Source Water Protection PPL

1. The SWP project priority list was updated on June 27, 2003. A summary of the project priority list is shown in Table 7.

Table 7
Summary of Source Water Protection Loan Project Priority List 2002/03
(Includes Project Commitments)

Category	Contaminant Addressed	Ground Water/ Surface Water	Zone	# Projects	Total Amount
A	Microbiological	GW/SW	A	18	\$12,762,000
B	Nitrates	GW	A	2	200,000
C	Nitrates	GW	B5, B10	9	3,650,000
D	Chemicals	GW/SW	A, B5	1	1,385,000
F	Chemicals	SW	Watershed	12	9,798,000
H	Microbiological	GW/SW	B5, B10, Watershed	22	2,718,000
I	All	GW	Buffer zone	1	100,000
Total				65	\$30,613,000

2. The Department intends to use set asides from the SRF capitalization grants towards funding projects on the SWP PPL. A summary of the set aside amounts is shown in Table 8.

Table 8
Source Water Protection Loan Set Asides from DWSRF Capitalization Grants

Grant #	State Fiscal Year(s)	Amount	Comments
3(1999)	1999-2000	\$4,040,835	Must be returned to SRF account because NOAA not issued prior to August 2002 (See note)
4(2000)	2000-2001	4,199,655	
5(2001)	2001-2002	4,217,000	
N/A	2002-2003	0	No capitalization grant awarded in SFY 2002/03
Total		\$8,416,655	Total without 1999 grant set aside

Note: In accordance with federal requirements, the FFY 1999 set aside funds for SWP had to be awarded to public water systems by August 2002. Due to delays in the state approval process, the regulations giving the Department the authority to enter into SWP loan contracts were not adopted until September 2002. Therefore, the Department was not able to award the FFY 1999 SWP set aside funds within the required time limits. These funds will revert back to the general SDWSRF infrastructure improvements account via an amendment to the FFY 1999 Assistance Award.

3. The Department invited applications from all 31 projects in Categories A through D from the 2002/03 PPL (Table 8).
4. Authorized first SWP loan contract in May 2003 to the Contra Costa County Water District for \$2,000,000. The district used the funds to separate the body contact recreation from their drinking water reservoir (Table 9).

A summary of the Source Water Protection loan binding commitments is shown in Table 9.

Report on SWP Binding Commitments for the 2000 & 2001 Capitalization Grants
As of June 30, 2003

Table 9 (2000 Grant)

PPL Cat.	System Name	Amount Committed	NOAA Executed	Project Description	Population Served	Cross Cutters	Interest Rate
A	Contra Costa Water Dist.	\$2,000,000	2/12/2003	Isolate body contact recreational activities from water storage reservoir	200,000	Yes	2.34%
Total Commitments		\$2,000,000					

V. FINANCIAL SUMMARY

The following discussion provides additional details on the financial management activities in the SDWSRF Program.

A. Status of Loans

The SDWSRF loan program had forty-two (42) closed loans (includes those that are a combination of loan and principal forgiveness) and four (4) exclusively forgiveness of principal loans, bringing the total funded projects to forty-six (46) as of June 30, 2003. Appendix A displays the status of all SDWSRF loans to date. This comprehensive loan portfolio spreadsheet includes the loan amount, principal forgiveness, interest rate, term, prior years' loans disbursed, current year's disbursement, total loans disbursed, past years' principal paid, current year's principal, cumulative principal paid, past years' interest paid, current year's interest paid, cumulative interest paid, and cumulative principal & interest paid. As of June 30, 2003, cumulative loan interest & principal repaid amounted to \$8,125,097 (Appendix A). Cumulative loan disbursements to PWSs amounted to \$126,880,046 (Table 2).

B. Loan Disbursements/Cash Draw Proportionality

DHS disbursed \$16,272,567 in loans for this reporting period and \$110,607,479 from prior reporting periods, bringing the total disbursements to date to \$126,880,046. Appendix C lists cumulative disbursements, cumulative loan-related federal Automated Clearing House (ACH) cash draws, and the cumulative federal/state proportionality ratio resulting from cash draw activities. DHS is using the rolling average method to determine federal/state proportionality as defined in the Guide to Using USEPA's Automated Clearing House for the Drinking Water State Revolving Fund Program (EPA-832-B98-003).

C. Set Aside Disbursements

DHS disbursed \$7,478,630 (Table 2) in set aside funds for this reporting period. Disbursements since the program's inception now total \$24,318,034. Appendix C lists set aside related cumulative cash draws and disbursements by type of set aside.

D. Annual Repayment/Aging of Accounts

As of June 30, 2003, DHS had forty-six (46) closed loans. Invoices are mailed to the water systems on a semiannual basis. Invoices are sent out on May 1 with payments due on July 1, and on November 1 with payments due on January 1. Projects under construction pay "interest only" until completion of construction at which time they begin payment of principal and interest. During the reporting period, principal repayments totaled \$2,861,743 and interest repayments totaled \$1,896,998 (Appendix E). The combined amount of repayments totals \$4,758,741.

E. Loan Portfolio Analysis

DHS has forty-six (46) loans in its portfolio that were funded as of June 30, 2003. As part of the application process to secure funding, DHS procedures require a financial review be conducted on each applicant to determine its ability to repay a loan. This is accomplished through an Interagency Agreement with the California Department of Water Resources, which subcontracts with an outside financial firm, California Municipal Utilities. A credit analysis is performed as part of the contractor's review of the water system. The recommendation of the contractor assists DHS in identifying questionable loans, thereby reducing the Department's exposure to situations that may lead to future loan default. This first line of defense is part of DHS' administrative internal controls. Subsequent to providing a loan, the Department monitors its loan portfolio on a semiannual basis. Invoices are mailed to water systems semiannually and payment is due by July 1 and January 2. The Department utilizes an "aging of accounts receivable" tickler file if payments are not received by the due date. Thirty (30) day notices are automatically generated by the system and staff computes penalties for late payment. DHS will identify loans that are potentially weak and track them closely to ensure that conditions are not deteriorating. As of June 30, 2003 all loans were current. See Appendix E, Loan Portfolio Tracking Report.

F. Investments

The SDWSRF program had \$156,337 (Table 1) in investment earnings during the reporting period. The State Treasurer is charged with managing investment funds in compliance with state investment practices. On March 20, 2002, the Pooled Money Investment Board approved DHS' request to invest the available cash from loan repayments and cash in the loan fund in SMIF for Fund 629-01. It is the practice of the SMIF to invest in even multiples of \$1,000, which results in a small, uninvested balance in the cash account. The State Controller's Office apportions interest earning to the fund at six-month intervals, effective June 30th and December 31st of each year. Available cash in the fund is comprised of remaining state match from the FFY 98 capitalization grant and revenue that is comprised of principal and interest repayments on loans to public water systems.

G. Financial Statements

The SDWSRF Audit Report, which includes the financial statements, is attached to this report as Appendix D. The SDWSRF Program had its financial statements audited for SFY 2002/03. The report gave the SDWSRF Program an unqualified opinion. There were no material issues for our management to address and there were no audit findings.

VI. COMPLIANCE WITH OPERATING AGREEMENT AND GRANT CONDITIONS

The State of California has complied with the conditions of the SDWSRF Operating Agreement. DHS has met and continues to be in compliance with the following conditions as described in the Operating Agreement:

- ☐ Establish state instrumentality and authority
- ☐ Comply with applicable state laws and procedures
- ☐ Review technical, financial, and managerial capacity of assistance recipients
- ☐ Establish SDWSRF loan account, set aside account, and SDWSRF administration account
- ☐ Deposit all funds in appropriate accounts
- ☐ Follow state accounting and auditing procedures
- ☐ Require SDWSRF loan recipient accounting and auditing procedures
- ☐ Submit IUP and use all funds in accordance with the plan
- ☐ Comply with enforceable requirements of the Safe Drinking Water Act
- ☐ Establish capacity development authority
- ☐ Implement/maintain system to minimize risk of waste, fraud, abuse, and corrective action
- ☐ Develop and submit project priority ranking system

DHS has met the following conditions as described more fully below:

- ☐ Take payments based on payment schedule

DHS has received payments from USEPA based on the schedule included in the grant awards made for SFY 2002/03. Appendix C includes a schedule of grant payments received.

- ☐ Deposit state matching funds

The State of California did not receive a federal Assistance Award for this reporting period. Therefore, no state match funds were needed.

- ☐ Submit Annual Report and Annual Audit

The submission of this report, which contains the annual audit, fulfills the State of California's responsibility under the Assistance Award.

The annual audit of the SDWSRF Program for SFY 2002/03 was conducted by the State of California, Department of Finance, Office of State Audits and Evaluations. The audit addressed internal controls, financial statement presentation, compliance, and all funding activity from the loan account and the set aside accounts. For SFY 2002/03, this audit agency issued an unqualified opinion on the financial statements and compliance reports and reported that the internal control structure was without material weakness. The report is contained in Appendix D.

- ☐ Assure that borrowers have a dedicated source of repayment

DHS' contractor, the California Department of Water Resources and its subcontractor, California Municipal Statistics, conduct a credit review evaluation for all PWSs. This evaluation determines whether or not an applicant has the ability to repay a loan. For all PWSs, the expected revenue stream from user fees must be sufficient to repay the loan, pay operation and maintenance costs, and pay for other necessary expenses.

- ☐ Use funds in timely and expeditious manner

DHS has committed 121.9% of all available loan funds from the federal FFY 97 grant, 115.9% of all available loan funds from the federal FFY 98 grant, 85.4% of all available loan funds from the FFY 99 grant, 98.3% of all available loan funds from the FFY 00 grant, and 52.5% of all available loan funds from the FFY 01 grant. Public water systems that receive new binding commitments are now required to move expeditiously within a year of receiving a commitment to commence construction. DHS will be monitoring construction progress to ensure that operations are initiated according to schedule.

- ☐ Ensure recipient compliance with applicable federal cross-cutting authorities

DHS and all of its assistance recipients have complied with all applicable federal cross-cutting authorities. Compliance checks are mandatory for each project and environmental clearance is required for the project to proceed.

- ☐ Implement capacity development strategy.

DHS continues to implement its capacity development strategy, which was finalized and accepted by USEPA in August of 2000. USEPA granted approval of DHS' 2002/03 TMF capacity development workplan on June 28, 2002.

- ☐ Conduct environmental reviews

For SFY 2002/03, there were 40 environmental clearances worked on, of which 16 were started, 13 were approved for Notice of Application Acceptance, and 14 were approved for contract. There were 2 projects that received an Environmental Impact Report, 6 that received Negative Declarations, none that received a Notice of Exemption, and 1 SDWSRF application that used a schedule for environmental compliance. DHS was the lead California Environmental Quality Act Agency for 2 projects (Table 10).

State Fiscal Year 2002 – 2003 Environmental Clearances

Table 10

<i>SRF Number</i>	<i>Applicant</i>	<i>Started</i>	<i>Accepted</i>	<i>Finished</i>	<i>EIR</i>	<i>N.D.</i>	<i>NOE</i>	<i>Sched</i>	<i>Lead</i>
0310006-01	River Pines Public Utility District (System No. 0310006)	Prior FY		9/19/2002					
3310003-01	Blythe, City of	Prior FY		5/22/2003					
3301477-01	Coachella Valley Water District/One Hundred Palms	Prior FY		1/17/2003					
2010007-01	Hillview Water Company	Prior FY	12/05/2002						
2810014-01	Spanish Flat Water District	Prior FY	9/25/2002						
2810009-01	Berrsa Pines Water System - Spanish Flat Water District	Prior FY	9/25/2002						
1910155-13	Southern California Water Company	Prior FY		1/9/2003					
0310003-03	Amador Water Agency	Prior FY		9/25/2002					
3710006-04	Escondido, City of	Prior FY		9/26/2002					
0710003-18	Contra Costa Water District	Prior FY		11/15/2002					
0710003-17	Contra Costa Water District	Prior FY		5/19/2003					
1910099-01	Paradise Ranch Mobile Home Park - Santiago Associates, LLC	Prior FY		4/15/2003					
0600005-01	Colusa County Service Area #2 Stonyford	Prior FY	4/2/2003						
4210010-02	Santa Barbara, City of	Prior FY		7/9/2002					
1910087-02	Metropolitan Water District of Southern California (MWD)	Prior FY		11/5/2002					

<i>SRF Number</i>	<i>Applicant</i>	<i>Started</i>	<i>Accepted</i>	<i>Finished</i>	<i>EIR</i>	<i>N.D.</i>	<i>NOE</i>	<i>Sched</i>	<i>Lead</i>
4310027-05	Santa Clara Valley Water District	Prior FY	6/9/2003						
4310027-06	Santa Clara Valley Water District	Prior FY	10/21/2003						
4310027-07	Santa Clara Valley Water District	Prior FY	6/9/2003						
1010049-01	Biola Community Services District	Prior FY		7/31/2003					
4810001-04	Benicia, City of	Prior FY	8/26/2002						
3210002-01	Plumas County Flood Control and Water Conservation District	Prior FY	6/3/2003						
5110002-13	Yuba City	Prior FY		6/4/2003					
5610017-01	San Buenaventura, City of	Prior FY	8/14/2002						
4610001-03	Loyalton, City of	Prior FY	11/15/2003						
0800510-01	Crescent City Connection	7/16/02		6/30/03					
2910005-05	Donner Lake	8/14/2002	2/14/2003			Yes			
0600012-02	Colusa County Service Area	12/11/2002							
0600005-01	Colusa County Service Area	11/14/2002	2/28/2003			Yes			
4510014-06	Bella Vista Water District	11/20/2002				Yes			
1000546-01	Fresno County-Raisin City	12/30/2002				Yes			
4010022-03	Lopez-San Luis Obispo County	12/19/2002							
5510030-01	Tuolumne Utilities District	12/31/2002				Yes			
5410002-01	City of Dinuba	1/2/2003				Yes			
5510013-05	Tuolumne Utilities District-Columbia	3/12/2003							

<i>SRF Number</i>	<i>Applicant</i>	<i>Started</i>	<i>Accepted</i>	<i>Finished</i>	<i>EIR</i>	<i>N.D.</i>	<i>NOE</i>	<i>Sched</i>	<i>Lead</i>
4700506-01	City of Dunsmuir, Van Fossen & Mason	2/27/2003						Yes	
1910070-00	LACDPW-District #40 Region 4	4/1/2003			Yes				
0410002-01	California Water Service-Chico	4/30/2003			Yes				Yes
4100516-01	La Honda Pescadero, Unified School District	6/5/2003							Yes
3100040-01	John Panelli, Shady Glen Mobile Home Park	6/10/2003							
4700506-01	City of Dunsmuir-Van Fossen and Mason Water System Replacement	6/17/2003							
TOTALS¹	40 Environmental Clearances Worked On	16	13	14	2	6	0	1	2

¹ For SFY 2002/03, there were 40 environmental clearances worked on, of which 16 were started, 13 were approved for Notice of Application Acceptance, and 14 were approved for contract. There were 2 projects that received an Environmental Impact Report, 6 that received Negative Declarations, none that received a Notice of Exemption, and 1 SDWSRF application that used a schedule for environmental compliance. DHS was the lead California Environmental Quality Act Agency for 2 projects.

APPENDIX A

PROJECT INFORMATION/LOAN STATUS

Cumulative Loan Portfolio Status (Executed Contracts) as of June 30, 2003

There are 46 executed contracts as of June 30, 2003, four (4) of which are principal forgiveness only and 42 loan only. Ten (10) of the 46 are a combination of loans & forgiveness of principal. The 46 contracts represent 45 projects.

Number	(A) Water System ¹	(B) Project No.	(C) SDWSRF Loan Number	(D) Public Water System Loan Amount	(E) PWS Loan Principal Forgiveness	(F) Loan Interest Rate	(G) Loan In Years	(H) Prior Years' Loans Disbursed	(I) Current Year's loan Disbursements	(J) Total Loans Disbursed (H)+(I)	(K) Past Years' Principal Paid	(L) Current Year's Principal Paid	(M) Cumulative Principal Paid (K)+(L)	(N) Past Years' Loan Interest Paid	(O) Current Year's loan Interest Paid	(P) Penalty Interest Assessed	(Q) Cumulative Interest Paid (N)+(O)+(P)	(R) Cumulative P&I Paid (M)+(Q)
1	Asoleado MWC	2702148-01	1998C202	\$61,390	0	2.793%	10	\$59,200.39	\$0	\$59,200.39	\$0	\$5,208.74	\$5,208.74	\$1,589.05	\$1,617.58	\$0	\$3,206.63	\$8,415.37
2	Calaveras Cty -West Point	0510005-01	1997C401	0	1,000,000	N/A	0	934,853.47	65,210.53	1,000,064	0	0	0	0	0	0	0	0
3	Carrick WS-Siskiyou	4700521-01	1999C406	0	540,000	N/A	0	0	355,468.63	355,468.63	0	0	0	0	0	0	0	0
4	City of Anaheim	3010001-02	1998RX103	18,062,849	0	2.793%	20	18,062,849.00	0	18,062,849.00	685,112.10	704,383.67	1,389,495.77	523,316.73	480,544.75	0	1,003,861.48	2,393,357.25
5	City of Angels	0510003-02	1999CX110	1,521,440	0	0%	20	1,072,403.41	308,716.03	1,381,119.44	0	0	0	0	0	0	0	0
6	City of Brawley	1310001-02	1997RX102	16,050,000	0	0%	20	15,823,475.00	0	15,823,475.00	0	791,173.76	791,173.76	0	0	0	0	791,173.76
7	City of Brawley	1310001-20	1997RX103	4,127,516	0	0%	20	4,127,516.00	0	4,127,516.00	103,187.90	206,375.80	309,563.70	0	0	0	0	309,563.70
8	Contra Costa WD	0710003-01	1999RX106	15,137,776	0	2.5132%	20	15,137,776.00	0	15,137,776.00	791,173.76	590,873.13	1,382,046.89	0	421,051.42	0	421,051.42	1,803,098.31
9	Crescent City	0810001-02	1998CX401	7,000,000	1,000,000	0%	20	6,526,251.92	1,473,748.08	8,000,000.00	0	0	0	0	0	0	0	0
10	City of Escondido	3710006-04	2000CX112	2,048,125	0	2.513%	20	0	612,331.89	612,331.89	0	0	0	0	2,311.09	0	2,311.09	2,311.09
11	City of Santa Barbara WD	4210010-02	2000CX111	19,200,000	0	2.513%	20	0	5,110,456.45	5,110,456.45	0	0	0	0	36,947.65	0	36,947.65	36,947.65
12	LA Dept. of W&P	1910067-01	1997CX101	17,751,425	0	2.32%	20	13,252,529.97	0	13,252,529.97	0	0	0	155,835.23	307,458.70	0	463,293.93	463,293.93
13	City of Tehema	5200504-01	2000C501	0	225,183	N/A	0	0	0	0	0	0	0	0	0	0	0	0
14	City of Vallejo	4810021-01	1997R101	6,675,000	0	2.32%	20	6,675,000.00	0	6,675,000.00	299,735.03	275,071.37	574,806.40	252,025.76	143,973.11	4,409.46	400,408.33	975,214.73
15	City of Westmorland	1310008-01	1997C402	670,632	1,000,000	0%	20	1,670,631.99	0	1,670,631.99	0	0	0	0	0	0	0	0
16	East Bay MUD	0110005-11	1999CX109	2,188,000	0	2.593%	20	0	0	0	0	0	0	0	0	0	0	0
17	El Dorado ID	0910001-01	1997CX104	1,045,711	0	2.32%	20	708,250.18	0	708,250.18	0	0	0	16,088.53	16,431.41	0	32,519.94	32,519.94
18	El Dorado ID	0910001-02	1997CX105	1,711,000	0	2.32%	20	919,141.68	0	919,141.68	0	0	0	17,640.84	21,324.09	0	38,964.93	38,964.93
19	El Dorado ID	0910001-22	1997CX102	1,171,500	0	2.32%	20	748,225.47	0	748,225.47	0	0	0	29,546.95	17,358.83	0	46,905.78	46,905.78
20	El Dorado ID	0910001-23	1997CX103	915,293	0	2.32%	20	558,223.10	0	558,223.10	0	0	0	16,858.36	12,950.78	0	29,809.14	29,809.14
21	Faye Properties Inc	5700720-01	1997C302	50,000	0	2.32%	20	0	0	0	0	0	0	0	0	0	0	0
22	Fords Acres MHP/Oswald	1700610-01	1999C310	187,000	0	2.5132%	20	183,335.50	0	183,335.50	0	3,555.73	3,555.73	0	4,784.32	0	4,784.32	8,340.05
23	Grenada Sanitary D	4700523-01	1998C408	505,000	970,000	0%	30	0	0	0	0	0	0	0	0	0	0	0
24	Grizzly Flats CSD	0910006-01	1999C308	268,629	0	2.7934%	20	0	220,883.26	220,883.26	0	0	0	0	3,160.12	0	3,160.12	3,160.12
25	Happy Camp CSD	4710012-01	1998C405	0	1,000,000	N/A	0	0	852,169.61	852,169.61	0	0	0	0	0	0	0	0
26	Hillview WC	2010007-03	1998P300	25,000	0	0%	1	23,672.23	0	23,672.23	0	0	0	0	0	0	0	0
27	Humboldt Bay WD	1210013-01	1997CX106	11,677,030	0	0%	20	7,990,353.48	2,691,292.68	10,681,646.16	0	0	0	0	0	0	0	0
28	Imperial Co. Wiest Lake	1300614-01	1997C103	83,710	0	2.32%	20	58,340.25	0	58,340.25	0	0	0	1,153.25	1,353.49	0	2,506.74	2,506.74
29	Lake Combie MHV	2900526-01	2000C311	74,375	0	2.513	20	0	38,485.00	38,485.00	0	0	0	0	0	0	0	0
30	Meadow Vista CWD	3110009-04	2000P102	100,000	0	2.39	5	0	0	0	0	0	0	0	0	0	0	0
31	Metro WD of So. CA	1910087-02	2000CX115	20,000,000	0	2.39	20	0	0	0	0	0	0	0	0	0	0	0
32	Redwood Homes, El Novato Trailer (Taylor)	2100570-01	1997C303	92,800	0	2.32%	20	78,440.79	0	78,440.79	78,440.79	0	78,440.79	2,701.54	0	0	2,701.54	81,142.33
33	Richardson Beardsley	3701780-01	1997C306	92,500	0	2.32%	20	17,728.73	39,364.53	57,093.26	0	0	0	311.21	786.61	0	1,097.82	1,097.82
34	River Pines PUD	0310006-01	1998C407	190,000	140,000	0%	20	0	68,852.90	68,852.90	0	0	0	0	0	0	0	0
35	Rural N. Vacaville	4810013-01	1998CX108	8,984,099	0	2.7934%	20	4,543,730.16	3,360,967.28	7,904,697.44	0	0	0	16,310.58	159,862.29	0	176,172.87	176,172.87
36	SLO Lopez Project	4010022-01	1999C105	300,000	0	2.513%	20	0	0	0	0	0	0	0	0	0	0	0
37	Santiago County WD	3010095-02	1997C102	1,300,000	0	2.32%	20	0	0	0	0	0	0	0	0	0	0	0
38	Sereno Del Mar WC	4900647-01	1997C307	250,000	0	2.513%	20	249,999.97	0	249,999.97	4,848.66	9,880.87	14,729.53	4,903.72	6,099.45	0	11,003.17	25,732.70
39	Serrano WD (Union)	3010082-01	1999RX104	3,542,373	0	2.5132%	14	3,460,882.00	0	3,460,882.00	103,897.01	211,728.76	315,625.77	46,468.17	83,045.74	0	129,513.91	445,139.68
40	Sierra Lakes CWD	3110017-01	1999C104	1,312,000	0	2.5132%	20	0	689,578.24	689,578.24	0	0	0	0	9,314.36	0	9,314.36	9,314.36
41	Sierra Mobile HP	1000252-01	1997C309	72,500	0	0%	20	0	22,198.94	22,198.94	0	0	0	0	0	0	0	0
42	Solano ID	4810010-01	1997C101	2,127,300	0	2.32%	20	2,016,885.60	108,010.33	2,124,895.93	0	0	0	73,113.79	48,561.23	0	121,675.02	121,675.02
43	Sonoma County WA	4910020-04	1997CX107	15,858,989	0	2.793%	20	4,226,429.21	0	4,226,429.21	0	0	0	76,746.87	118,061.07	0	194,807.94	194,807.94
44	Terra Bella Irr Dist	5410038-01	1997R105	1,230,000	0	0%	20	1,218,820.00	0	1,218,820.00	60,941.00	60,941.00	121,882.00	0	0	0	0	121,882.00
45	Terra Bella Irr Dist	5410038-02	1997C404	102,000	408,000	0%	20	262,533.20	114,298.31	376,831.51	0	2,550.00	2,550.00	0	0	0	0	2,550.00
46	Whitehorn-S.Humboldt	1200522-01	1998C403	28,616	114,466	0%	20	0	140,534.30	140,534.30	0	0	0	0	0	0	0	0
	42 loans+10 principal forgiveness = 46 Total			\$183,791,578	\$6,397,649	1.71% Avg	19.05 Avg	\$110,607,478.70	\$16,272,566.99	\$126,880,045.69	\$2,127,336.25	\$2,861,742.83	\$4,989,079.08	\$1,234,610.58	\$1,896,998.09	\$4,409.46	\$3,136,018.13	\$8,125,097.21

¹ There are 45 projects, 46 funded contracts (4 are forgiveness of principal only), which represent 41 water systems, which amounts to \$183,791,578 in loans and \$6,397,649 in forgiveness of principal for a total loan portfolio of \$190,189,227.

APPENDIX B

ACCOUNTING & MANAGEMENT REPORTS

APPENDIX C

REPORT ON CASH DRAWS, DISBURSEMENTS,
AND PAYMENTS

**MULTIPERIOD LOAN FUND CASH DRAW PROPORTIONALITY
AS OF 6/30/02 FOR THE 1997 THROUGH 2001 CAPITALIZATION GRANTS
SFY 1998/99, 1999/00, 2000/01 & 2001/02**

					Loan Fund Account				
		Action			(A)	(B)	(C)		
					Federal	State	Total	Federal Portion	State Portion
					Amount	Amount	Amount	A/C (Rounded)	B/C (Rounded)
Period 1 FFY97 (Grant Awarded September 15, 1998)					63,270,654	15,136,520	78,407,174	81%	19%
Cash Draws as of 8/15/99					0	0	0		
Ending Balance					63,270,654	15,136,520	78,407,174		
Period 2 FFY 98 (Grant Awarded August 16, 1999)									
Beginning Balance					63,270,654	15,136,520	78,407,174		
Grant Award Amount					72,173,275	15,421,640	87,594,915		
Total					135,443,929	30,558,160	166,002,089	82%	18%
Cash Draws Between 8/16/99 & 8/15/00					304,382	66,816	371,198	82%	18%
Ending Balance					135,139,546	30,491,344	165,630,891		
Period 3 FFY 99 (Grant Awarded August 16, 2000)									
Beginning Balance					135,139,546	30,491,344	165,630,891		
Grant Award Amount					71,603,596	16,163,340	87,766,936		
Total					206,743,142	46,654,685	253,397,827	82%	18%
Cash Draws Between 8/16/00 & 12/13/00					7,986,089	1,753,044	9,739,133	82%	18%
Ending Balance					198,757,053	44,901,641	243,658,694		
Period 4 FFY 00 (97 Grant Amendment December 14, 2000)									
Beginning Balance					198,757,053	44,901,641	243,658,64		
Grant Amendment					1,743,980	0	1,743,980		
Total					200,501,033	44,901,641	245,402,674	82%	18%
Cash Draws between 12/14/00 & 12/20/00					0	0	0	Not Applicable	Not Applicable
Ending Balance					200,501,033	44,901,641	245,402,674		
Period 5 FFY 00 (Grant Awarded December 21, 2000)									
Beginning Balance					200,501,033	44,901,641	245,402,674		
Grant Award Amount					79,793,445	16,798,620	96,592,065		
Total					280,294,478	61,700,261	341,994,739	82%	18%
Cash Draws Between 12/1/00 & 3/12/02					56,230,060	12,343,185	68,573,245	82%	18%
Ending Balance					224,064,418	49,357,076	273,421,494		
Period 6 FFY 01 (Grant Awarded March 13, 2002)									
Beginning Balance					224,064,418	49,357,076	273,421,494		
Grant Award Amount					73,062,600	16,868,000	89,930,600		
Total					297,127,018	66,225,076	363,352,094	82%	18%

**CUMULATIVE LOAN, SET ASIDE DISBURSEMENTS & CASH DRAWS FROM USEPA
AS OF 6/30/03 FOR THE 1997 THROUGH 2001 CAPITALIZATION GRANTS
SFYs 1998/99 through 2002/03**

CUMMULATIVE PROJECT SET ASIDE DISBURSEMENTS		CUMMULATIVE PROJECT SET ASIDE CASH DRAWS	
Administration Account (625)	\$11,122,822	Administration Account (625)	\$11,087,807
Water System Reliability Acct. (626)	1,826,341	Water System Reliability Acct. (626)	1,639,705
Source Protection Account (627)	6,384,433	Source Protection Account (627)	6,888,695
Small System TA Acct. (628)	4,888,939	Small System TA Acct. (628)	4,913,543
SDWSRF Loan Account (629) ¹	126,880,046	SDWSRF Loan Account (629) ¹	80,332,674
Total Disbursements	\$151,102,581	Total Cash Draws	\$104,862,424

¹ Disbursements of \$126,880,046 (Table 2) for the loan account include both federal and state match amounts. Draws from USEPA should amount to 82% of the disbursements in accordance with the proportionality ratio. This would amount to \$104,041,638 (\$126,880,046 X 82%). However, beginning in May 2002, in order to expedite the use of California's Proposition 13 funding for state match, disbursements were made using 100% state money. The state will recapture the correct federal share at a later date, after exhausting the state match. A separate spreadsheet is being maintained to track the amount.

Cash draws for Administration and Small Water System Technical Assistance exceed the amount of disbursements as of 6/30/02. This has to do with a timing issue. Disbursements equaled or exceeded draws but were input into CALSTARS after the year-end-closing.

GRANT PAYMENTS RECEIVED FROM USEPA BY CAPITALIZATION GRANT

No federal Assistance Awards were received by USEPA during SFY 2002/03. However, grant payments were received during SFY 2002/03 for the FFY 2001 Capitalization Grant, which was received during SFY 01/02. Grant payments received from USEPA for the FFY 2001 Capitalization Grant in SFY 2002/03 are as follows:

FFY	FEDERAL QUARTER	STATE FISCAL YEAR 2002/03	PAYMENT AMOUNT
2002	4	July-September 2002	\$16,000,000
2003	1	October-December 2002	16,000,000
2003	2	January-March 2003	16,000,000
2003	3	April-June 2003	20,226,270
TOTAL PAYMENTS²			\$68,226,270

² \$68,226,270 out of a total of \$84,340,000 was received during SFY 2002/03.

APPENDIX D

AUDIT REPORTS (INCLUDING FINANCIAL STATEMENTS)

Audit Report

The California Department of Finance, Office of State Audits and Evaluations, conducted the required annual audit of the SDWSRF program. The audit began in October 2003 and was completed in November 2003. It covered the operations of the SDWSRF program for SFY 2002/03. An unqualified opinion was issued, as has been the case for all prior audits. The audit report stated “In our opinion, the financial statements present fairly, in all material respects, the financial position of the California Department of Health Services Safe Drinking Water State Revolving Fund as of June 30, 2003, and the changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.” A report was also issued on compliance and on internal control over financial reporting based on an audit of financial statements performed in accordance with Governmental Auditing Standards. The report, dated November 19, 2003 says, “We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.” Finally, the auditors issued a report on compliance with OMB Circular A-133. The report, dated November 19, 2003 says, “We noted no matters involving internal control over compliance and its operation that we consider to be material weaknesses.” No audit findings were noted in the audit report: See Appendix D for a copy of the audit report.

Financial Statements

The Financial Statements are prepared by the California Department of Health Services and filed with the State Controller’s Office. Please see Appendix D.

APPENDIX E

ANNUAL REPORT ON LOAN PORTFOLIO TRACKING OF BORROWERS

Loan Portfolio Tracking Report

The SDWSRF Program schedules loan repayments from water systems for principal and interest during each January and July. Invoices were sent out in November and May during SFY 2002/03. All water systems were current with their repayments as of June 30, 2003.

The invoicing process of the Accounting Department is automated and keeps track of the timeliness of payments through an accounts aging process tickler file. If loans were to become delinquent, they would be flagged and staff would contact the water system. Since no water systems were delinquent as of June 30, 2003, there was no need to follow up on delinquent loan tracking.

DHS has the following loans in its loan portfolio and tracks repayments to ensure that compliance with the loan contract is maintained. Non-payment of interest and/or principal according to the repayment schedule may be an indication of potential non-performing loans. Staff is prepared to intervene should an account become delinquent. All accounts were current as of June 30, 2003.

Please loan portfolio tracking on the next page.

LOAN PORTFOLIO TRACKING AS OF JUNE 30, 2003

	(A) Water System Name	(B) Project Number	(C) Loan Amount (includes forgiveness)	(D) Cumulative Principal & Interest Billed	(E) Cumulative Principal & Interest Paid (Appendix A)	(F) D-E Principal & Interest Past Due	(G) Cumulative Late Payment Interest Assessed	(H) Cumulative Program Revenue (E+G)
1	Asoleado MWC	2702148-01	\$61,390	\$8,415.37	\$8,415.37	\$0	\$0	\$8,415.37
2	Calaveras County WD- West Point	0510005-01	1,000,000	P. Forgiveness	P. Forgiveness	0	0	P. Forgiveness
3	Carrick Water Sys.	4700521-01	540,000	P. Forgiveness	P. Forgiveness	0	0	P. Forgiveness
4	City of Anaheim	3010001-02	18,062,849	2,393,357.25	2,393,357.25	0	0	2,393,357.25
5	City of Angels	0510003-02	1,521,440	0	0	0	0	0
6	City of Brawley	1310001-02	16,050,000	791,173.76	791,173.76	0	0	791,173.76
7	City of Brawley	1310001-20	4,127,516	309,563.70	309,563.70	0	0	309,563.70
8	City of Escondido	3710006-04	2,048,125	2,311.09	2,311.09			2,311.09
9	City of Santa Barbara	4210010-02	19,200,000	36,947.65	36,947.65			36,947.65
10	Contra Costa WD	0710003-01	15,137,776	1,803,098.31	1,803,098.31	0	0	1,803,098.31
11	Crescent City	0810001-02	8,000,000	0	0	0	0	0
12	LA Dept. of W&P	1910067-01	17,751,425	463,293.93	463,293.93	0	0	463,293.93
13	City of Tehema	5200504-01	225,183	P. Forgiveness	P. Forgiveness			P. Forgiveness
14	City of Vallejo	4810021-01	6,675,000	970,805.27	970,805.27	0	4,409.46	975,214.73
15	City of Westmorland	1310008-01	1,670,632	0	0	0	0	0
16	East Bay MUD	0110005-11	2,188,000	0	0			0
17	El Dorado ID	0910001-01	1,045,711	32,519.94	32,519.94	0	0	32,519.94
18	El Dorado ID	0910001-02	1,711,000	38,964.93	38,964.93	0	0	38,964.93
19	El Dorado ID	0910001-22	1,171,500	46,905.78	46,905.78	0	0	46,905.78
20	El Dorado ID	0910001-23	915,293	29,809.14	29,809.14	0	0	29,809.14
21	Faye Properties Inc	5700720-01	50,000	0	0	0	0	0
22	Fords Acres/Oswald	1700610-01	187,000	8,340.05	8,340.05	0	0	8,340.05
23	Grenada Sanitary Dist.	4700523-01	1,475,000	0	0			0
24	Grizzly Flats CSD	0910006-01	268,629	3,160.12	3,160.12	0	0	3,160.12
25	Happy Camp CSD	4710012-01	1,000,000	P. Forgiveness	P. Forgiveness	0	0	P. Forgiveness
26	Hillview WC	2010007-03	25,000	0	0	0	0	0
27	Humboldt Bay MWD	1210013-01	11,677,030	0	0	0	0	0
28	Imperial Co. Wiest Lake Campground	1300614-01	83,710	2,506.74	2,506.74	0	0	2,506.74
29	Lake Combie MHP	2900526-01	74,375	0	0			0
30	Meadow Vista CWS	3110009-04	100,000	0	0			0
31	Metro WD of S. CA	1910087-02	20,000,000	0	0			0
32	Redwood Homes, El Novato Trailer (Taylor)	2100570-01	92,800	81,142.33	81,142.33	0	0	81,142.33
33	Richardson Beardsley	3701780-01	92,500	1,097.82	1,097.82	0	0	1,097.82
34	River Pines PUD	0310006-01	330,000	0	0			0
35	Rural North Vacaville	4810013-01	8,984,099	176,172.87	176,172.87	0	0	176,172.87
36	SLO Lopez Project	4010022-01	300,000	0	0			0
37	Santiago County WD	3010095-02	1,300,000	0	0			0
38	Sereno Del Mar WC	4900647-01	250,000	25,732.70	25,732.70	0	0	25,732.70
39	Serrano WD (Union)	4900647-01	3,542,373	445,139.68	445,139.68	0	0	445,139.68
40	Sierra Lakes CWS	3110017-01	1,312,000	9,314.36	9,314.36	0	0	9,314.36
41	Sierra Mobile HP	1000252-01	72,500	0	0	0	0	0
42	Solano ID	4810010-01	2,127,300	121,675.02	121,675.02	0	0	121,675.02
43	Sonoma County WA	4910020-04	15,858,989	194,807.94	194,807.94	0	0	194,807.94
44	Terra Bella ID	5410038-01	1,230,000	121,882.00	121,882.00	0	0	121,882.00
45	Terra Bella ID	5410038-02	510,000	2,550.00	2,550.00	0	0	2,550.00
46	Whitehorn Elementary	1200522-01	143,082	0	0	0	0	0
Cumulative Totals			\$190,189,227.00*	\$8,120,687.75	\$8,120,687.75	\$0	\$4,409.46	\$8,125,097.21

***Represents \$183,791,578 in loans + \$6,397,649 in loan principal forgiveness = \$190,189,227 loan portfolio.**

All principal and interest loan accounts are current. There are no past due amounts.

APPENDIX F

PUBLIC WATER SYSTEM BY-PASS PROJECTS

PROJECT BY-PASSES

The following table represents projects by-passed during SFY 2002/03. Water systems were given until July 2003 to notify the state if they wanted their projects by-passed. Water systems with by-passed projects may be funded in the future provided that their project falls within the fundable category for that future year.